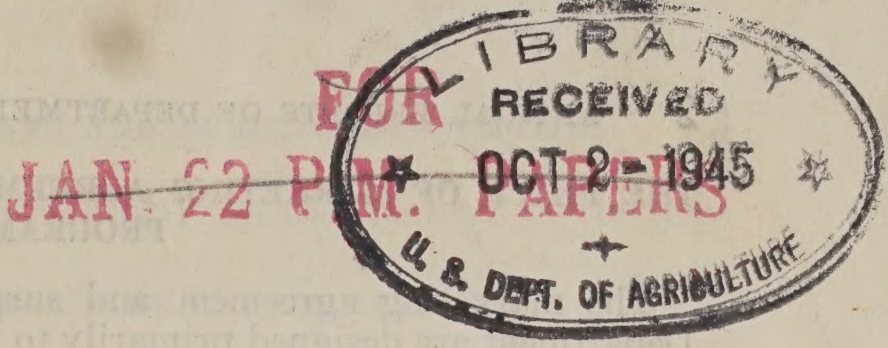


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REPORT OF THE ASSOCIATE ADMINISTRATOR OF THE
AGRICULTURAL ADJUSTMENT ADMINISTRATION, IN
CHARGE OF THE DIVISION OF MARKETING AND MAR-
KETING AGREEMENTS, AND THE PRESIDENT OF THE
FEDERAL SURPLUS COMMODITIES CORPORATION,
1939

UNITED STATES DEPARTMENT OF AGRICULTURE,
DIVISION OF MARKETING AND MARKETING AGREEMENTS,
FEDERAL SURPLUS COMMODITIES CORPORATION,
Washington, D. C., October 31, 1939.

Hon. HENRY A. WALLACE,
Secretary of Agriculture.

DEAR MR. SECRETARY: I present herewith reports for the Division of
Marketing and Marketing Agreements and the Federal Surplus Com-
modities Corporation for the fiscal year ended June 30, 1939. The re-
ports for these two agencies, which are supervised under the direction
of a single administrative official, are submitted jointly because of the
very close interrelationship between their programs and activities.

Sincerely,

MILO PERKINS,
*Associate Administrator,
Agricultural Adjustment Administration,
President, Federal Surplus Commodities Corporation.*

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THE PLACE OF MARKETING AGREEMENT AND SURPLUS REMOVAL PROGRAMS

The marketing agreement and surplus removal programs of the Department are designed primarily to help farmers meet a basic problem with which they have contended for a long time. This is the question of getting a fair return from an agricultural commodity after it is produced.

These programs represent a direct attack upon the various marketing difficulties of farmers. They make possible more orderly selling conditions for agricultural commodities, and encourage increased distribution of crops which are produced in surplus.

The agreement and surplus removal programs serve the interests of consumers, as well as those of farmers. The stability they bring to agricultural marketing is just as important for those who consume a product as it is for those who produce it. And the surpluses which are handled by the removal programs are salvaged for the use of consumers who otherwise would not be able to get them.

SUPPLEMENT EFFORTS OF FARMERS

In recent years there has been a growing realization that programs to meet marketing problems must go hand in hand with measures to solve production problems. This fact is definitely recognized in the national farm program, of which the marketing agreement and surplus removal programs are an integral part. These measures supplement the conservation, adjustment, and ever-normal granary features of the broad program. They provide farmers with the machinery to deal more effectively with the marketing phase of their operations after crops have been produced.

The two types of marketing programs, marketing agreement and surplus removal, are closely interrelated. They seek the common goal of more efficient marketing, and they are frequently developed together. Surplus removal activities, for instance, may be planned as a direct supplement to cooperative efforts being made by growers through marketing agreement programs.

GREW OUT OF NEED

The marketing agreement and surplus removal programs grew out of agriculture's need for additional help to improve conditions under which farm products had to be sold. In their efforts to promote more orderly marketing and to protect farm income from falling to extremely low levels, farmers had already turned to group action in working out solutions. They organized cooperatives and worked with handlers of farm commodities in setting up clearing house arrangements and other mechanisms. These attempts sometimes ran into difficulties. The few who chose not to cooperate were often able to obtain the benefits without sharing in the burdens of united action, thus weakening the industry's program.

Farmers then turned to Government for aid, in their search for machinery which would lend support to their organized efforts. Today, marketing agreement and surplus removal programs are meeting this need. They are fostering cooperation among farmers and improved working relationships between producers and handlers.

The resulting adjustments are distinctly in the interests of the general welfare.

MARKETING AGREEMENT PROGRAMS

Marketing agreement programs provide for regulating the handling of agricultural commodities in interstate or foreign commerce. They are designed to encourage market stability for farm products and to promote an orderly exchange of goods. The main objectives, as stated in the declared policy of Congress, are (1) to establish returns to farmers at a level more nearly approaching the level of the prices of things farmers buy, and (2) to protect the interests of the consumer by approaching the parity level gradually and by taking no action which has for its purpose the maintenance of prices to farmers above that level.

The programs operate through marketing agreements and orders issued by the Secretary of Agriculture under a democratic procedure which requires their consideration at public hearings, and provides for referenda among producers and the assent of handlers. While marketing agreements may be used for any agricultural commodity, orders, which make the terms of the agreements applicable to all handlers, may be issued only for specific commodities. These are milk and its products, all fresh vegetables, fresh fruits (in the case of apples only those produced in Washington, Oregon, and California), olives and asparagus for canning, tobacco, pecans, walnuts, soybeans naval stores, package bees and queens, and hops.

DEALING WITH MARKETING PROBLEMS

Marketing agreement programs apply to handlers of agricultural commodities. They do not apply to farmers in their capacities as producers. In general, two methods are employed through the programs in dealing with farmers' marketing problems—one for milk and another for such commodities as fruits and vegetables.

PROVISIONS FOR DAIRY PRODUCTS

For milk, the programs establish minimum prices which handlers in a marketing area are required to pay producers, and, in addition, provide for a method through which payments are made. Through these programs it has been possible to bring greater stability to a number of milk markets, improve competitive relationships among handlers, and provide for more equitable treatment for producers in the sale of their milk and in the returns they receive.

PROVISIONS FOR CROPS

The programs for commodities in the fruit and vegetable field in the main provide for the regulation of shipments out of a producing area on the basis of volume or the grades and sizes of the commodity which may be shipped. The volume of shipments of a farm crop may be regulated under a marketing agreement program so as to supply the market with all it can take without seriously depressing returns to growers. In thus preventing gluts, speculative risks resulting from long-distance shipping and high handling charges are minimized. During seasons when a crop may be short, volume regu-

lation of shipments may be used to help the industry spread the marketing of the total supply over the entire normal shipping period. Thus, both in times of heavy production and also in times of light production, marketing agreement programs provide the means for equitable participation by all growers in the more orderly distribution of their products.

Regulating the grades and sizes of a commodity shipped helps to adjust market supplies more nearly in keeping with demand conditions for particular grades or sizes. By keeping off the markets low-grade and heavily discounted sizes of a product, growers are frequently able to prevent direct cash losses. At the same time, they are given a better opportunity to sell those grades and sizes of the product which are more in demand by consumers.

SCOPE OF OPERATION

During the last fiscal year, more than 40 marketing agreement programs were in effect for milk and dairy products and for other farm products such as fruits, vegetables, nuts, and hops. Approximately 1,300,000 producers were directly affected through the operation of these programs.

Since marketing agreement programs were first made available in 1933, much has been learned concerning the possibilities and limitations of this new approach to the marketing problems of farmers. The policies which are being followed in the development and operation of these programs have grown out of practical operating experience. The programs are now emerging from the experimental phase and are taking their place as permanent machinery available to agriculture in dealing with certain parts of the complicated marketing problem. The sizable store of information and experience which has been acquired is being used constantly further to improve this democratic means for the three-way cooperation of farmers, handlers, and Government.

SURPLUS REMOVAL ACTIVITIES

Surplus removal programs frequently supplement the efforts which an industry makes under a marketing agreement program, or through other means, to improve selling conditions. The immediate objective is to help farmers deal more effectively with burdensome, price-depressing surpluses which glut their markets. The broader objective is to widen outlets for farmers and to stimulate the use by consumers of needed supplies of farm commodities.

TYPES OF PROGRAMS

Three types of surplus removal programs are employed in carrying out these general objectives. They are: (1) Programs to encourage increased domestic distribution and consumption, (2) domestic diversion and new use programs, and (3) export subsidy programs. All of these are designed to assist farmers in moving surplus supplies of agricultural commodities which otherwise would seriously depress prices.

INCREASING CONSUMPTION

The programs to encourage increased domestic distribution and consumption are designed primarily to bridge the gap between the surpluses on farms and the lack of adequate food supplies among millions of the Nation's consumers. The most significant development in this field of activity during the last year was the inauguration of the surplus food order stamp plan. Under the stamp plan, increased buying power is given to needy low-income families for use in purchasing commodities officially listed as being "in surplus." This plan utilizes the normal channels of trade in getting the surplus commodities from the farmer to the families who need them.

The stamp plan was developed in the search for a more effective means of encouraging the consumption of surplus commodities. Previously, the principal method used to secure this increased consumption was the purchase of surpluses by the Federal Surplus Commodities Corporation and their direct distribution to the needy and unemployed through State welfare agencies. While the direct purchase and distribution activities are being continued, experimental operation of the stamp plan during the last weeks of the fiscal year proved encouraging enough to warrant a gradual expansion of this new method for handling surplus commodities. In the cities where the stamp plan is put into effect, the direct distribution of surplus products by welfare agencies is discontinued.

ENCOURAGING WIDER USES

The diversion and new use programs seek to develop and encourage future domestic outlets and new uses for farm products. Certain agricultural commodities produced in surplus quantities have been sold in very limited amounts or not at all in parts of the United States. Under a diversion program, provision may be made for payments to producers for the sale of surplus commodities in new domestic markets. The purpose of the payment is to equalize the returns from sales in the new outlets with those realized from sales in normal markets. In this way, new markets may be developed. The diversion programs operate through agreements between the Secretary of Agriculture and organizations, usually organized for the purpose by the various industries.

Under these programs, surpluses of agricultural commodities may also be diverted from normal channels of trade in efforts to expand the production of byproducts and to develop new uses. Usually the lower qualities of a commodity are used for byproduct purposes. The expansion of this form of diversion is carried out through payments to growers. The elimination of supplies of lower grades from direct competition with the better-quality products, particularly when a surplus exists, removes the price-depressing effect which the low-quality stock tends to exert on the entire production. At the same time the use of surpluses in byproduct channels is fostered.

New uses for surplus agricultural commodities are sought largely by making available to certain public institutions supplies which may be used for experimental purposes. Through such a program the use of cotton, for example, is being tested in the construction of highways

and airplane runways, as a lining for drainage ditches, in the building of small shelters and houses, and in many other "new use" projects.

EXPORT PROGRAMS

The export programs are designed to encourage sales of certain surplus commodities in foreign countries. During the last fiscal year, a wheat export program helped United States producers in holding their fair share of the world markets. Out of a total of 118,000,000 bushels of United States wheat and wheat in the form of flour sold to foreign countries, the exportation of approximately 94,000,000 bushels was assisted directly by the export program. Plans for an export program to help United States cotton producers maintain their fair share of the world cotton market were developed to operate during the 1940 fiscal year.

AID THROUGH LOANS

As a further aid to farmers in dealing with the problem of agricultural surpluses, loans may be made on commodities adapted to storage. The loans, while made by the Commodity Credit Corporation, are often employed to supplement operations under marketing agreement and surplus removal programs. Through these loans, producers are able to keep off the markets supplies of commodities which otherwise would prove burdensome and price depressing. The loans for some types of commodities also eliminate the pressure of selling, particularly during the harvest period. Loans are made also to provide advances to growers on commodities to be diverted to new or byproduct uses and for which payments are to be made under diversion programs. Such loans are of the nonrecourse type and are made to a cooperative organization whose principal function is to handle operations under the program. The cooperative organization advances the loan funds to the grower upon receipt of the commodity for diversion.

ADMINISTRATIVE AGENCIES

Marketing-agreement and most of the surplus removal programs are developed in the Division of Marketing and Marketing Agreements. Many of the surplus-removal programs, particularly those designed to encourage increased domestic distribution and consumption, and certain types of export programs are carried out by the Federal Surplus Commodities Corporation.

FUNCTIONS AND ACTIVITIES OF EACH

The major functions of the Division in developing and administering marketing-agreement programs and in working out plans for dealing with farm surpluses are carried out through the Dairy Section, the General Crops Section, the Marketing Section, and the Poultry Section. In addition, there are the Field Investigation Section and the Transportation Section. The Field Investigation Section is responsible for auditing and for investigational work to facilitate administration and operation of programs. The Transportation Section was established during the last fiscal year to deal with problems relating to the adjustment of agricultural freight rates.

The activities of the Corporation are carried out primarily through two main units. The Purchase and Distribution Division is responsible for buying surplus commodities, in accordance with the programs which have been developed, and their distribution to State welfare agencies for the use of needy families and to make possible free school lunches for underprivileged children. The Stamp Plan Division is responsible for operations under the surplus food order stamp plan in the areas where it is put into effect.

The functions of the Division of Marketing and Marketing Agreements and the activities of the Federal Surplus Commodities Corporation are closely interrelated. Both are concerned with action programs which seek primarily to improve marketing conditions for farmers. In order to carry out their work most effectively, each must of necessity follow policies which are consistent with those of the other agency.

THE BASIS FOR MARKETING-AGREEMENT PROGRAMS

Marketing-agreement programs, first available in 1933 under the Agricultural Adjustment Act, are now provided by the Agricultural Marketing Agreement Act of 1937. Some of the objectives originally sought by the advocates of marketing-agreement legislation of necessity have had to be modified in line with experience in operating the programs.

OBJECTIVES SOUGHT

At first, the idea behind marketing-agreement programs was that they might be used in some manner as an alternative approach to the production-adjustment features of the Adjustment Act. Gradually, a clearer concept was developed of the role which could be played by these programs. Industry groups discovered that these programs could provide the legal basis for voluntary industry efforts to exercise a reasonable degree of control over market supplies and prices. Cooperatives saw in marketing-agreement programs an opportunity to make group action more effective through an extension of the principles of cooperation. These programs, it was felt, could provide a capstone to the agricultural cooperative movement. Others saw in the marketing-agreement programs an opportunity for encouraging closer working relationships between farmers and those who handle their products.

EARLY LEGISLATION

The Agricultural Adjustment Act of 1933 contained only four general paragraphs of provision for marketing-agreement programs. The Secretary of Agriculture was authorized to enter into marketing agreements with processors, associations of producers, and others engaged in the handling in the current of interstate or foreign commerce of any agricultural commodity or product. Provision was made for the issuance by the Secretary of licenses which required all handlers to comply with their provisions. The Adjustment Act, however, provided for only such regulation through licenses as might be necessary to eliminate unfair practices or charges. Provisions giving the details, or even the general scope, of a marketing program were lacking.

AMENDED IN 1935

It was not long, therefore, before question arose concerning the constitutionality of the rather comprehensive programs developed under the marketing agreement and license provisions of the original act. Enforcement in the courts became difficult. When the National Industrial Recovery Act was declared unconstitutional by the Supreme Court, Congress in 1935 amended the marketing-agreement provisions of the Agricultural Adjustment Act to remove certain features which were thought to be objectionable.

The 1935 amendments to the marketing-agreement provisions of the act were very extensive. These amendments continued in effect the then existing marketing agreements and licenses; but, in addition to continuing the Secretary's authority to enter into marketing agreements, provided for the issuance of orders instead of licenses in the future. It was required that an order regulate the handling of a commodity in the same manner as a marketing agreement. Before an order could be issued, the Secretary was required to determine whether it was approved by at least two-thirds of the producers, by number or by volume of the commodity involved. An order could be issued with a marketing agreement if it had the required producer approval and the agreement was signed by handlers of at least 50 percent of the volume of the commodity. If the required handler signature to an agreement could not be obtained, but the issuance of the order had the necessary producer approval, then the order could be issued without an agreement if the action had the approval of the President.

ORDERS FOR SPECIFIC COMMODITIES

The issuance of orders was limited to specified agricultural commodities. In addition to milk and its products, orders could be made applicable to all fruits other than apples, and all vegetables for fresh consumption, olives and asparagus for canning, nuts, tobacco, soybeans, and naval stores. By subsequent amendments, hops, package bees and queens, and apples produced in Washington, Oregon, and Idaho have been added. Provisions which could be incorporated in orders to regulate the handling of the listed products were definitely spelled out. Authorization was also given the Secretary for the selection of industry committees or agencies to assist in the administration of marketing agreements and orders.

MORE RECOGNITION TO PRODUCERS

Of special significance to producers and their cooperatives is the fact that the enactment of the 1935 amendments gave them a more definite place in the development and operation of marketing-agreement programs. The Secretary of Agriculture now had to determine whether producers favored the issuance of an order, and no order could go into effect without the required producer approval. The provisions which were incorporated to strengthen the position of producers and their organizations resulted in an important change in the administrative procedure which governed the development of marketing-agreement programs. Producers and their representatives

were given more incentive to help shape the programs, as well as greater responsibility in their administration.

Shortly after Congress had sought to clear away the constitutional questions raised by the Supreme Court's decision on the National Recovery Act, the marketing agreement programs were again involved in new legal difficulties. These arose after the January 6, 1936, decision of the Supreme Court against the production control and processing-tax features of the Agricultural Adjustment Act. Several of the lower district courts differed as to the separability of the marketing-agreement provisions from the production control features which had been declared unconstitutional.

THE MARKETING AGREEMENT ACT

In order to clarify further the legal status of marketing agreement programs, Congress passed the Agricultural Marketing Agreement Act of 1937. The Marketing Agreement Act reenacted, amended, and supplemented the marketing agreement provisions of the Agricultural Adjustment Act, as amended in 1935. The purpose of the act, as set forth in the declaration of policy, was to establish and maintain such orderly marketing conditions for agricultural commodities in interstate commerce as would establish prices to farmers at a level that would give agricultural commodities a purchasing power, with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The act enabled the Secretary to conduct a referendum among producers for the purpose of ascertaining whether issuance of an order was approved by them. Otherwise, the provisions of the Marketing Agreement Act of 1937 were much the same as the marketing agreement provisions of the Agricultural Adjustment Act as it was amended in 1935.

ENFORCING THE PROGRAMS

Much progress has been made in the enforcement of marketing agreement programs during the last 6 years. The modifications made by Congress since the original provisions for these programs were enacted have strengthened their legal basis. Today there exists a backlog of legal precedent which makes possible more expeditious handling of enforcement cases through the courts.

The enforcement of marketing agreements and licenses under the 1933 Adjustment Act was difficult. The reasons for this difficulty are evident in the various court decisions which led to the enactment of amending legislation. The changes which were made by Congress in the 1935 amendments opened the way to more effective enforcement. This was particularly true for marketing-agreement programs in the fruit and vegetable field. However, the efforts to enforce programs for milk continued to be subjected to long, drawn-out procedures, with costly delays to producers.

Enactment of the Agricultural Marketing Agreement Act of 1937 helped to overcome many of the difficulties experienced in connection with the enforcement of the programs for milk. It also helped further to expedite the enforcement of the programs for other commodities.

SUPREME COURT DECISIONS

Since the Marketing Agreement Act was passed, the enforcement of marketing agreement programs has been supported by the courts, either by rulings of lower courts or through appeals to higher courts.

The most significant legal development, insofar as the Marketing Agreement Act is concerned, took place June 5, 1939, when the Supreme Court rendered its decisions on the New York and Boston milk order cases. These decisions upheld the validity of the programs in the two markets and confirmed the constitutionality of the Marketing Agreement Act, under which the orders were issued.

EFFECT OF THE BOSTON RULING

The decision in the Boston case marked the high point of an almost continuous legal struggle since the Federal milk marketing program first became effective for that market late in 1933. In addition to settling major legal questions, the decision freed for payment to producers nearly \$3,000,000 which had been impounded by a lower court pending the milk handlers' appeal to the Supreme Court. The money represented payments due from handlers to producers through the equalization pool for the Boston milk market under the order. Had the Supreme Court ruled against the program, the money would have reverted back to the handlers instead of being paid out to producers. The funds, accumulated during a period of 17½ months, represented an increase in producers' returns of slightly over 20 cents per hundredweight of milk delivered during that period, or an average total additional payment to individual producers of about \$190. Milk for the Boston market is produced by approximately 18,000 producers in the States of Vermont, New Hampshire, Maine, New York, Massachusetts, and Rhode Island.

EFFECT OF THE NEW YORK RULING

The decision of the Supreme Court in the New York case restored to producers a program for what is commonly regarded as the world's largest fluid milk market. Almost 65,000 producers in 6 States produce, for this market, milk which has a farm value of around \$100,000,000 a year. The program for the metropolitan New York milk marketing area operates under complementary Federal and State orders which first became effective September 1, 1938. Efforts to enforce the program against noncomplying handlers resulted in an adverse lower court decision and the suspension of the program as of February 1, 1939. The decision of this lower court was appealed directly to the Supreme Court. During the period in which the appeal was pending, extremely chaotic conditions developed in the New York milk market. As a result, large numbers of producers received for milk sold for fluid purposes less than its value for manufacturing uses. The Supreme Court's reversal of the lower court's decision made it possible to reinstate the market-wide machinery under which orderly selling conditions had been enjoyed by dairy farmers in the States of New York, Pennsylvania, New Jersey, Connecticut, Massachusetts, and Vermont who produce milk for the metropolitan New York area.

LEGAL ISSUES CLARIFIED

The decisions of the Supreme Court in the Boston and New York cases definitely clarified some of the broader legal issues and gave sanction to the general principles of Federal milk market regulation. While the security of marketing agreement programs, especially those for milk, is firmly founded by these decisions, there are numerous legal questions which remain to be settled. In general, the courts have assumed an understanding attitude toward marketing agreement programs and have recognized the nature of the problem which is involved in their administration and operation.

ENFORCEMENT POLICY

The Department of Agriculture is charged with the responsibility of seeing that the terms and conditions of a marketing agreement and order, once put into effect, are complied with. This calls for a vigorous enforcement policy, and such is being followed. The Department of Justice is doing its part in litigation to make this enforcement policy effective.

SIGNIFICANCE OF THE DECISIONS

The two decisions of the Supreme Court on the milk marketing programs are of far-reaching significance to the dairy industry and to the agricultural cooperative movement in general. They give greater permanency to an approach to marketing problems which farmers have sought through both the Federal and State Governments.

During the last half dozen years many States have enacted legislation which provides for programs similar to the Federal marketing agreement programs. Nearly half the States of the country have milk-control laws, and several States have laws for the development of marketing programs for other farm commodities, particularly fruits and vegetables.

FEDERAL-STATE COOPERATION

The Marketing Agreement Act authorizes Federal-State cooperation in the development and administration of programs regulating the handling of agricultural commodities. Such arrangements for milk and for certain fruits and vegetables have been worked out between the Federal Government and seven States. Closer coordination between the activities of State and Federal Government agencies in dealing with producers' marketing problems is becoming evident. The Supreme Court's decisions in the New York and Boston milk cases and earlier decisions on State regulatory activities make available, for the first time, fundamental legal guides for this type of Federal-State cooperation.

THE DAIRY MARKETING AGREEMENT PROGRAMS

During the fiscal year 27 marketing agreement programs were in effect in the dairy industry. Of this total, 25 provided for the regulation of the handling of milk in fluid milk markets, 1 was for the

national evaporated milk industry, and the other for the national dry skim milk industry. The programs were in effect through marketing agreements with and without orders, through orders alone, and through licenses which had been issued before enactment of the Agricultural Marketing Agreement Act of 1937. Altogether, the programs directly affected approximately 1,200,000 dairy farmers. The annual farm value of fluid milk alone sold under the marketing agreement programs exceeds \$149,000,000.

TABLE 1.—*Estimated number of producers and estimated volume and value of milk used in markets under marketing agreement programs, July 1938–June 1939*

Market	Producers	Estimated total volume	Estimated total value
	<i>Number</i>	<i>Pounds</i>	
Battle Creek ¹	281	22,252,834	\$411,462.00
Boston ^{2 3}	⁴ 17,180	718,901,891	12,928,483.52
Cincinnati ⁵	4,633	216,851,566	4,463,894.73
Denver ¹	1,915	⁶ 152,005,229	2,174,605.43
Dubuque ⁵	253	20,199,692	307,431.67
Fall River ⁵	358	34,736,085	1,047,155.57
Fort Wayne ⁷	1,095	45,979,103	798,115.13
Kalamazoo ¹	376	30,536,678	544,415.18
Kansas City, Mo. ⁵	1,532	128,325,285	2,508,397.98
La Porte County ⁵	292	15,799,536	331,023.32
Leavenworth ¹	89	⁶ 9,144,491	150,992.87
Lincoln ¹	1,075	⁶ 83,652,492	1,023,746.70
Louisville ¹	1,470	134,389,696	2,449,149.40
Lowell-Lawrence ^{2 3}	⁸ 792	52,770,312	1,583,300.92
New Bedford ¹	337	36,879,907	1,174,180.81
New York ⁵	63,396	4,684,908,000	96,605,000.16
Omaha-Council Bluffs ⁹	2,485	101,602,672	1,677,152.31
Quad Cities ¹	1,185	76,002,036	1,155,234.97
St. Louis ⁵	4,969	328,116,956	5,853,410.91
San Diego ¹	145	⁶ 85,946,828	1,851,288.56
Sioux City ¹	1,105	43,552,089	672,909.92
Toledo ⁵	2,469	136,769,424	2,463,578.04
Topeka ¹⁰	225	⁶ 22,602,860	348,775.14
Twin Cities ¹	6,336	459,898,698	6,546,083.59
Wichita ¹	430	⁶ 46,599,843	787,503.76
Total.....	¹¹ 114,423	7,688,424,203	149,862,202.59

¹ License in effect.

² Marketing agreement and order in effect.

³ Volume and value of milk pooled.

⁴ Period January–July 1936.

⁵ Order in effect.

⁶ Reported in butterfat and converted to milk equivalent.

⁷ Marketing agreement to Oct. 14, 1938; order beginning Oct. 15, 1938.

⁸ Number of producers estimated by Massachusetts Milk Control Board in 1937.

⁹ License to Apr. 4, 1939; order beginning Apr. 5, 1939.

¹⁰ Marketing agreement in effect.

¹¹ In addition, approximately 118,000 producers are affected by the marketing agreement program for the evaporated milk industry, and approximately 1,000,000 producers by the program for the dry skim milk industry.

VARIED ACTIVITIES

Plans for further expansion of the programs for fluid milk were under way at the close of the fiscal year. Among the markets in which preliminary steps had been taken before putting programs into effect were Chicago and New Orleans.

Activities in connection with dairy marketing programs during the course of the fiscal year included the supervision of existing programs, consideration of proposals to amend or institute programs, analysis of supply and demand conditions affecting the marketing of milk and milk products in various markets, analysis of economic problems arising from the operation of the regulatory programs for milk, cooperation with State authorities in the formulation of con-

current and complementary marketing agreements and orders, analysis and supervision of programs designed to stabilize markets by surplus removal and by relief distribution of milk or milk products, and cooperation with other Federal agencies and with producer and handler groups in the formulation and administration of a general stabilization program for dairy products.

WHAT THE PROGRAMS DO

In general, the milk marketing agreements, orders, and licenses provide for an agency to administer the terms of the program, define the marketing area to which the regulation applies, and establish a method for fixing minimum prices of milk according to use and a method for distributing returns to producers. Returns to producers may be distributed through either an individual-handler or a market-wide pool. If an individual-handler pool is stipulated, the prices received by producers delivering milk to any one handler will be uniform, but they may be different from those received by producers delivering milk to other handlers, depending upon differences in the utilization of milk by the various handlers. If provision is made for a market-wide pool, all producers will receive a uniform price no matter to which handler the milk is delivered. Some form of baserating may also be used in the distribution of returns to producers in connection with either type of pooling arrangement.

In some of the milk marketing agreement programs, provision is made for a special producer price for milk disposed of under any program which may be approved by the Secretary for the sale or disposition of milk to low-income consumers, including persons on relief. This is done in markets where, through the cooperation of municipal authorities and industry groups, there is an opportunity to put into effect a program for supplying needy families with more milk at less than the regular retail price. The objective of such a program is to encourage increased milk consumption among people not now getting adequate supplies, and at the same time to improve the total returns of producers by utilizing quantities of milk which otherwise would be used for manufacturing purposes.

SOME ECONOMIC CONSIDERATIONS

In a regulatory program, the primary purpose of which is the fixing of prices, one of the most difficult problems is to ascertain and maintain sound price relationships. This is especially true in the fixing of prices in fluid markets, where several prices for the same product may be necessary in order to handle adequately the pricing problem. Unless sound price relationships are maintained, forces may be set in motion which may eventually result in the breakdown of the program. The structure of prices incorporated in any milk regulatory program is the result of the interpretation of the facts in the record of a public hearing at which producers, handlers, and others were afforded an opportunity to provide pertinent statistical and other information.

The maintenance of sound price structures becomes much more complicated in alternate periods of light and heavy production of milk and dairy products. Every effort is being made to improve and work

out methods of administrative procedure so that rapidly changing conditions in milk markets where programs are in effect may be met promptly.

IMMEDIATE VERSUS LONG-TIME OBJECTIVES

An important immediate objective of regulation in some markets is to bring about a degree of stability in the marketing processes. In many instances, this objective requires the maintenance for short periods of certain elements of status quo. Frequently, the maintenance of status quo necessitates some compromise with the longer time adjustments which are needed for the most economic organization of the marketing structure.

One problem of this nature is related to maintaining historical relationships among various groups of producers serving a market. Prior to the institution of a regulatory program, it is often found that some producers or some groups of producers are able to secure a marketing or price advantage which they do not share with other producers. Sometimes this advantage depends upon their location in relation to the market, or upon the quality of the milk they produce, or upon other similar factors. The question is raised, when the regulatory program is being devised, as to the degree to which such producers should be allowed to maintain their advantage, and to what degree they should be required to share it with other producers in the market.

MEETING A SITUATION

Since the immediate objective in putting a regulatory program into effect usually is to restore stabilized conditions, it frequently is necessary to preserve certain advantages which some producers in the market enjoy over others. This is done with the realization that when stability is restored, it will be possible to begin revising the program to provide eventually for greater equity among producers.

A typical situation of this kind is found in connection with the use of the so-called "nearby differential" which is included in some programs for the very large milk markets. When handlers have had to draw additional supplies of milk from producing areas located at great distances from the market, frequently producers nearest to the market have been left with a substantial premium for their milk which cannot be accounted for by actual transportation costs alone. In the development of a program, these nearby producers have tended to insist that the full amount of this premium be preserved in their returns despite the fact that the market would, for the first time, have a bottom placed under the whole price structure because of the program. The "nearby differential" has been used to meet such a situation, with the expectation that gradual adjustments will be made later on the basis of practical operating experience under the program in the market.

OPERATING PROBLEMS ENCOUNTERED

Rapidly changing economic conditions invariably put a strain on a regulatory program, which by its very nature is somewhat cumbersome and inelastic. Changing conditions raise problems with respect to the maintenance of sound price relationships, and they also affect other provisions of a regulatory program under an order. When

a market has a scarcity of milk and it is necessary for handlers to go outside of the usual milkshed in order to secure additional supplies, questions are frequently raised regarding the payment for this under the order, the application of transportation differentials and allowances, and many others of a similar nature. When the market is characterized by large surpluses, ways and means must be found under the regulations for handling such surpluses. Again problems are raised concerning handling and manufacturing allowances, as well as adjustments in the price structure.

The classification of milk for the purpose of pricing frequently poses difficult questions. These are especially acute when the market structure is in a state of transition as a result of changing health ordinances. When health ordinances in a marketing area become more stringent, these changes must be reflected in a changed price structure, and this in turn requires new methods of classifying milk. Where more than one quality of milk is being sold in a marketing area because complete adjustment has not been made to a more stringent health ordinance, the problem of classification is especially difficult. Even after a complete health ordinance adjustment has been made, market practice frequently inhibits making more satisfactory adjustments in the system of classification.

NEED FOR FURTHER STUDIES

Effort is being directed continually toward drafting programs in such a manner that changed conditions in a market can be handled without the necessity for frequent changes in the order which is the instrument of regulation.

The practice is to subject all such economic problems to analysis as soon as they are discovered or anticipated, in order to determine what adaptations should be made in the programs.

The problems that arise in connection with the operation of dairy marketing agreement programs are due to various causes. Some are due to the lack of complete understanding of the purposes of such a regulatory program in a market and of the statutory limitations which apply to the provisions and the administrative procedures. Other problems, essentially legal and economic in nature, are not to be solved easily, since the legal questions involved are frequently without precedent and since many of the economic questions have been the object of little or no research.

Each market in which a fluid-milk program is in effect offers its own peculiar problems, but many are common to several markets. These may be roughly divided into two groups. One group is made up of those problems arising from the method and procedure of initiating and administering an order in a fluid-milk market. The other group is composed of those problems arising from customary marketing processes that are to be recognized in the promulgation of an agreement or order.

PROCEDURE FOR DEVELOPING PROGRAMS

The usual procedure for initiating a marketing agreement program in a market is through requests from the market. This may be made by producers and handlers, but, in most instances, the request for a

program and for its consideration at a public hearing comes from producers' cooperatives. Once a hearing is called, it is the responsibility of producers, handlers, and others in the market to supply the testimony and evidence necessary as the basis for further action. Each provision of a proposed marketing agreement and order must be justified. The hearing affords all interested parties an opportunity to take part in the development of a program with sound and workable provisions for the particular market. Frequently producers do not have the necessary factual information with which to justify their proposal. Handlers, on the other hand, do have this information. Too often, however, they have been unwilling to cooperate by taking part in the hearing and furnishing the facts for the record. Since handlers are the ones who are subject to regulation under a marketing agreement program, the submission of pertinent data by them to show the extent to which they would be helped or injured by each specific provision of a proposal certainly is in their own interests.

AMENDING A PROGRAM

Amendments to marketing agreements and orders are issued through the same procedure as are the orders themselves. The minimum length of time required, from the receipt of a petition for a hearing on an amendment to the effective date of such an amendment, is approximately five weeks, although no amendment has actually become effective in so short a time. If there is a change in the production conditions of certain supply areas, an immediate increase in price may be advisable. By the time an amendment to the order can be made effective, however, the situation may have become modified to the extent that another course of action may be more desirable.

RESPONSIBILITIES IN PRICING MILK

Price decreases, as well as price increases, are desirable and necessary at certain times. Because, as a matter of policy, each order or amendment must receive the approval of producers before it may become effective, it has been difficult to amend an order with the objective of decreasing prices, although such price change may have been in the best interest of the producers as a group. Producers' cooperatives or individual producers will seldom petition that the price of their milk be reduced. The producer himself finds it to his individual advantage to maintain a higher price for his milk, in spite of the fact that all producers together may benefit in the longer run if the price is reduced. Attempts have been made to handle this problem through the use of price formulas which provide for automatic adjustments in prices as conditions change. Formulas have not been entirely successful in this regard, however, because it is quite impossible to include in a formula all of the elements which might have considerable effect on the price.

So far the problem of reducing prices in marketing agreement programs has not been acute because, for the most part, it has been necessary to raise prices. However, the time may come when it may be necessary to make general reductions in prices in all markets. If price decreases do become necessary in a market, but producers refuse to approve them, the only possible action would be for the Secretary to suspend or terminate the order which provides for the regulation.

Such action, although necessary, would be wasteful in the extreme. Much of the work already done at great public expense in providing stability for such a market would be lost, because, in order for the program to work efficiently and in the longer time public interest, it must be continuous.

MARKET CUSTOMS

The second group of problems, in general, concerns the marketing customs in the market. The solution of many of these problems varies from market to market and must be based on the peculiarities and customary practices of the market. In each marketing agreement and order, it is necessary to define the marketing area and to designate the producers and handlers that are to be affected by the provisions of the regulation. In relatively few markets can the marketing area be defined as the area within the corporate limits of a city. This area is generally composed of a city and its suburbs or its satellite towns and villages. An attempt is made to define the marketing area in such a way as to include most of the sales of the handlers operating in the market. Some handlers usually distribute milk throughout a metropolitan area without regard to the fact that such distribution may go beyond the corporate limits of the principal city.

THE MARKETING AREA

Complications in pricing milk are introduced if all parts of the marketing area do not have similar sanitation regulations covering the production, processing, and distribution of milk. It costs less in general to produce milk for a suburban community that has less stringent sanitation regulations than for an urban center that has more stringent regulations. If the suburban area is included in the marketing area and producers deliver milk to a handler who sells milk only in the suburb, they receive the same price for their milk as producers delivering a superior quality and presumably more costly milk to an urban handler. On the other hand, if the suburb is not included in the marketing area and if a considerable amount of milk is sold by urban handlers in the suburb, the determination of the volume of and the pricing of such out-of-market sales become important matters. It is extremely difficult to determine the volume of such sales outside of the marketing area if they are made on a continuation of urban routes. Such milk must be priced so that it meets the competition of the inferior suburban milk. Frequently, it is not easy to determine at what price such suburban milk is purchased from producers. A somewhat similar problem is posed in the definition of producers who are to be affected by the order.

THE PRODUCER DEFINITION

The definition of a milk producer under regulatory programs frequently raises important questions. This is especially so in markets where the health ordinances are ambiguous with respect to the quality of the milk which may be sold, or where the ordinances are not stringently enforced. The Marketing Agreement Act provides that nothing in an order or agreement shall prohibit the sale, in any marketing area, of milk or milk products produced anywhere in the

United States. The policy, therefore, has been to place all milk sold or qualified for sale as milk in a defined marketing area under the regulation.

In some instances, because the health ordinance is ambiguous or not enforced stringently, it has been difficult to distinguish between producers who were producing fluid milk from those producing manufactured milk. This problem arises in connection with handlers who are engaged in both the distribution of fluid milk and the manufacture of milk products. If the health ordinance does not clearly segregate the fluid milk producers from the manufactured milk producers, the handler may claim that the milk of all of his producers must be considered as comprising his fluid milk supply. Such a situation tends to reduce the protection which is supposed to be afforded fluid milk producers, and to a degree mitigates the effect of the regulation on the handler.

COMPLICATIONS IN POOLING

This problem becomes especially acute in connection with market-wide pools. Under such pools, no matter how many manufactured-milk producers a handler is successful in having included in the pool, the price which that handler is able to pay producers is the same as that paid by any other handler. In such a situation, the level of prices to all producers is lowered, but the price paid by the handler engaged in "diluting" the pool does not suffer in relation to the prices paid by other handlers. Under an individual-handler pool, of course, only the price paid by the handler engaged in the "diluting" process is reduced, and competition among handlers for milk supplies probably tends to set a limit to the extent to which one handler can engage in this practice.

The question as to the type of pool to be used in the market is always of large importance. Generally, it may be conceded that the market-wide pool is the pool that should be included in all orders, since it provides that all producers be paid a uniform price for milk, and that the individual-handler pool is desirable only insofar as its operation tends to have the effect of the market-wide pool. The individual-handler pool does make it possible for different producers to receive different prices for their milk. In many markets it is difficult to obtain the necessary information for determining which of these two types of pools should be used. In such cases market practices and preference, as shown by the hearing record, are usually the deciding factors.

CLASSIFYING MILK

The proper classification of milk in a market is always a problem in connection with correct pricing. The number of classes of milk varies from market to market. In Boston, there are as few as two classes, and in New York City there are as many as nine classes. The number of classes of milk in a market is determined in part by the organization of the market, in part by the sanitation regulations affecting the sale of the several milk products, and in part by the volume of milk shipped to market relative to that used for fluid purposes.

In general, the larger the market and the more complex its marketing processes, the more intricate and more thorough are the sanitation regulations. Also, the larger the supply is relative to fluid milk sales, the greater the number of classes that will be necessary to handle adequately the pricing problem. There are advantages to producers in having a larger number of classes if the supply of milk is relatively large and the sanitation regulations are stringent on some of the manufactured dairy products. A large number of classes permits a fine stratification of demand, but disadvantages arise from the complexity of bookkeeping and verification of records that is necessary in such instances.

THE PRODUCER-HANDLER

One of the more difficult questions involves the relationship of the producer-handlers to the marketing-agreement program for a market. The question is partially economic and partially administrative. The most important decision to be made in regard to producer-handlers is whether they should be included in market-wide pools. Producer-handlers as a rule have a very high percentage of class-1, or fluid-milk sales. It is contended that producer-handlers contribute little to the seasonal surpluses of a market because they regulate their production to conform to the seasonal variation of their fluid-milk sales. Therefore, it is maintained, they should not be forced to bear any of the burden of the seasonal surplus and should be exempted from the pool.

On the other hand, it may be said that the milk of a producer-handler is of the same value as that of any other producer before its sale to a handler. It meets the same sanitation regulations, and customary market differentials could be paid for any differences in butterfat content, for any other physical differences in the milk, and for differences in advantage of location, just as with the milk of other producers. Since the milk of producer-handlers and other producers is comparable, it would seem that the prices received for the production of both should be the same. If the producer-handler is exempt from the pool, his blend price will generally be higher than that of other producers. It would seem that on theoretical considerations the weight of the evidence is for including the producer-handler in the pool.

PARTLY EXEMPT

However, certain difficulties are encountered in including producer-handlers in a market pool. In general, producer-handlers would be required to make payments to the market pool because of their greater-than-average proportion of fluid-milk sales. Where a producer-handler purchases no milk from other producers it is difficult to explain to him the equity of an arrangement which does not permit him to retain the total proceeds of the sale of his own production. The cost of litigation to collect from producer-handlers payments due to the market pool and the cost of verifying their sales records more than likely would exceed their pool payments.

As a practical solution, producer-handlers under marketing agreement programs are required to make reports as are all other handlers,

and if, in addition to the milk produced by them, they buy from other producers, they must settle for that milk bought on the same basis as any other handler subject to slightly varying requirements as to allocation of utilization between produced milk and purchased milk.

INDUSTRY-GOVERNMENT RELATIONSHIPS

The development of sound regulatory programs requires the cooperation of all interested groups. This cooperation is sought in the formulation of a proposed program, in the public hearings required before the program can go into effect, and in getting compliance with the provisions of the program after it has been made effective.

THE ROLE OF PRODUCERS

Because of the nature and the basic purposes of the Marketing Agreement Act, organized producers in a given market have the responsibility for first proposing that a program be instituted. This entails a further responsibility to formulate a definite proposal for the type of program which they believe would best carry out the purposes of the act in the market. This proposal provides a tangible basis for discussion at a public hearing, without in any way committing the Government in its favor. The producers' organization, as sponsor, is expected to prepare and present at the hearing supporting evidence on the need for regulation and the merits of its proposal. Other producers in the market, either organized or unorganized, are expected to present evidence as to how the various provisions of the proposal might affect them. While it is not expected that individual producers will be able to prepare lengthy and well-documented testimony, every effort is made to conduct the hearings in such a way as to encourage any person with an interest in the proceedings to testify in his own way as to just how he will be affected by any provisions of the proposal.

RESPONSIBILITY OF HANDLERS

The full participation of handlers as well as producers is vital to the formulation of a regulatory program. The interest of handlers in the programs is as direct as that of producers. It is in furtherance of their interest that handlers are expected to present at the hearing as complete evidence as possible, either supporting or opposing the various provisions which have been proposed. Where certain provisions appear to be incompatible with the legitimate interest of handlers, counter proposals should be made and supported by evidence which, in the handlers' opinion, would best serve their interests and still carry out the purposes of the act. This participation by handlers is of particular importance because they are usually in a position to present important data, going back many years, which might not otherwise be available.

THE INTEREST OF CONSUMERS

The role of consumers in the formulation of a sound regulatory program is somewhat different from that of either the producers or handlers, but it is none the less very important. The consumer interest is identified with the broad public interest in an uninterrupted supply of high-quality milk at prices which permit a high

level of consumption. The act pays special attention to this interest in declaring the policy "to protect the interest of the consumer * * *" by raising the level of prices to producers "by gradual correction of the current level at as rapid a rate as the Secretary of Agriculture deems to be in the public interest and feasible in view of the current consumptive demand in domestic and foreign markets. * * *" An intelligent expression of consumers' views is considered important to the development of a sound program.

GOVERNMENT'S PART

The role of the Government in the development of a program is to carry out the purposes of the act by guiding this development from the very beginning. Field representatives of the Department are available for consultation with responsible producer, handler, and consumer groups in the various markets who may be interested in the marketing-agreement program.

Once a hearing is called, on a proposal from groups in a market, the Government's interest is to obtain the facts necessary as a basis for a sound program. Full opportunity is afforded by the officer in charge of the hearing for all persons to present relevant testimony. While a certain degree of formality is, of course, necessary to the conduct of such a hearing in a businesslike manner, this formality is not such as would prevent even the inexperienced witness from having his say. It is the Department's practice to gather together in the form of a mimeographed statement a compilation of factual material in its possession regarding the market, together with an explanation of the more important provisions of the proposal which is to be considered. This material is made available at the hearing for the use of all interested parties.

COOPERATION NECESSARY

When all interested groups cooperate fully and intelligently in the development of a regulatory program, such a program can be formulated with a complete understanding of the conditions in the market, and it is most likely to be developed in the best interests of each group. Without such full and intelligent participation on the part of producers, handlers, and consumers, the program which is developed may fall short of meeting the market's problem, or may, in certain respects, fail to promote the best interests of the market.

FEDERAL-STATE PROGRAMS

In some fluid-milk markets the character of commerce is such as to make desirable joint Federal and State action in providing a regulatory program. The issuance of orders complementary to, or concurrent with, the orders of State authorities is authorized by the Marketing Agreement Act. Such joint orders for particular markets have been discussed with 11 States: Alabama, California, Connecticut, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, New York, Oregon, and Pennsylvania. Memoranda of cooperation have been signed by the Secretary and the authorities of 4 of these States—Indiana, Massachusetts, New York, and Pennsylvania.

By the end of the fiscal year there were in force joint or complementary orders in four markets: Fort Wayne and La Porte, Ind.; Lowell-Lawrence, Mass.; and New York, N. Y. A marketing agreement and order for the New Orleans, La., marketing area was in process of development to complement similar regulation issued by the Louisiana State authorities.

MILK PRICE FIXING

The need for Government regulation of milk prices arises out of the nature of the product and the intricacies of marketing it in fluid form. The production and marketing of milk are characterized by peculiarities and difficulties which frequently result in serious disruption of the marketing processes and decline in the level of prices for the product. These difficulties inhere in both the physical character of the product itself, and in the peculiar economic conditions under which it is necessarily marketed. It is well understood that milk in its fluid state is both highly perishable and very bulky. It is an excellent medium for the growth of harmful bacteria and, hence, although it unquestionably has a high nutritional value, if proper safeguards are not erected around its production and sale, a serious menace to public health may result.

MARKET INTRICACIES CONSIDERED

In order to provide consumers with such a highly perishable product, which at the same time in relation to its raw product value is also very bulky, and which is produced as far as 300 to 400 miles away from the point of consumption, it is necessary to set up an expensive and delicate marketing mechanism. In the smaller markets, milk is delivered directly from the farms to the city pasteurizing and distributing plants. In order to accomplish this delivery on a regular schedule, consistent with the speed and efficiency necessary to preserve the quality and wholesomeness of a perishable product, the application of extensive resources, both physical and human, is required. In larger markets, the collection function is even more intricate, and involves the use of collection points—the so-called country stations—distributed strategically throughout the milk supply area. Here milk is delivered from farms, weighed, tested, and cooled, and thence delivered in large quantities, frequently in tank cars or tank trucks, to city pasteurizing plants. After the milk is delivered in the market, it must be pasteurized, bottled, and delivered to homes or stores, all on a very rigorous time schedule.

POSITION OF PRODUCERS

Because of the intricacies of the milk marketing process, milk producers can have only little direct contact with their market. Producers are located at some distance from the market to which their milk is delivered, and at best can have only limited personal contact with the persons to whom they sell their milk. Moreover, because of the collection systems, the number of outlets available to farmers in any locality are often extremely limited. Frequently dairy farmers have only one dealer to whom it is practicable to sell milk. For this reason, milk producers do not have the choice of selling their product

to the highest bidder, as is commonly supposed to be the case in the marketing of other products.

The dependence on a single buyer for a market becomes even more significant when the inherent peculiarities of milk production are considered. As has already been pointed out, milk is highly perishable and easily contaminated. Many safeguards have been erected in the marketing processes to protect its purity. But no amount of safeguarding in marketing can effectively counteract carelessness in production. For that reason, it is a common practice for public health officials to require that certain standards of sanitation be maintained in the production of milk. These standards usually are much more rigorous with respect to milk which is produced for sale in fluid form, than for milk produced for manufactured products such as butter, cheese, and evaporated milk. Such physical equipment as cooling devices, milk houses, and screening are usually required, all of which add to the cost of producing milk of a quality suitable for sale as fluid milk.

In addition to the requirements for physical equipment, it is also necessary to follow many time-consuming practices such as frequent cleaning of barns and stables, washing cows, and sterilizing equipment. These practices, by requiring the expenditure of additional time which could be spent either in handling more cows, or in developing other farm enterprises, also increase the cost of producing milk for fluid use.

SUPPLY AND DEMAND FORCES

Another characteristic of milk, which further complicates its marketing and pricing, is the seasonal nature of the supply of, and the demand for, fluid milk. The production of milk varies widely from season to season as a result of the seasonal variation in the availability of succulent foodstuffs and the biological cycle of cows.

Ordinarily, the volume of milk production is greatest during the months of May and June, when cows are put out on fresh pastures. In addition, many farmers arrange for cows to freshen during or just prior to the pasture season, and it is in the period immediately following freshening that a cow produces the most milk. The combination of spring freshening, and the availability of succulent feed, results in the production of much more milk in the months of May and June than at any other time of the year. It is not uncommon in some areas, for milk production to be 100 percent greater in May and June than in November, the month when milk production is usually lowest.

The demand for fluid milk, on the other hand, does not ordinarily vary from season to season relatively as widely as production. However, demand frequently varies much more than supply from day to day. Changes in the weather, changes in population, and relative degrees of prosperity among consumers are among the unpredictable factors responsible for changes in the demand for milk.

SEASONAL SURPLUS

Because of the lack of relationship between the supply of milk and the demand for milk seasonally, it is important that the supply of milk produced during the period when production is lowest be

adequate for the market's needs at that time. Consequently, the greater production of milk in the other months of the year supplies the market with more milk than can be sold in fluid form at the prices paid for fluid milk during the period of short production. As a result, a seasonal surplus of milk arises, which acts to depress prices to the very low levels paid for milk used for manufacturing purposes.

The very precipitous reduction in prices which occurs with the advent of surplus milk is caused by the fact that when prices are reduced consumers do not buy large additional quantities of milk and thereby consume the surplus. Even when prices for high quality milk fall to the level of prices paid for milk of the much lower quality used for manufacturing purposes, consumers still do not use all of the milk produced, and considerable quantities of it must be used in the production of manufactured milk products. Thus, while the farmer's cost of producing milk for fluid consumption is higher than it would be if he were producing only milk for manufacturing purposes, it has always been difficult for him to receive remuneration for the added expense involved in the production of fluid milk.

PRODUCERS SEEK MARKET STABILITY

Efforts of fluid-milk producers to improve their lot, and to protect themselves against the precipitous price declines which have characterized their industry, have taken many forms. Among the most familiar efforts to gain a degree of control over the price of their product have been the formation of the several types of cooperative marketing associations, the organization of milk strikes, and the fostering of legal machinery whereby their rights would be more fully protected. The most important aspect of these efforts has been the formation of the cooperative marketing associations. These associations have usually taken one of three forms: The bargaining association, which is the most numerous type; the operating cooperative, which owns or operates some facilities, usually country stations and manufacturing plants; and the retail distributing associations. These categories are not precise, but rather indicate merely the general types. Some associations would fall into two or all three of these categories with respect to the several functions that they perform.

DEVELOPMENT OF COOPERATIVES

Cooperative milk marketing associations probably owe their origin to the peculiar circumstances of milk producers as the sellers of a product. As was indicated earlier, milk producers characteristically live at some distance from their market; they frequently have only one buyer available to them; their product is perishable; the supply of it cannot be effectively controlled within short periods; the demand for it in fluid form is apparently inelastic, except as buying power rises among low-income groups, and, as a partial result of the last three factors, the price is subject to rapid and wide fluctuations. All of these circumstances probably combined to indicate to milk producers the need for an agency which would act as a salesman for their product, their representative in the market in matters of price determination, and as an agency through which producers could

obtain a better control of the supply of their product and thereby of its price.

While cooperative milk-marketing associations had had some degree of success as salesmen for their members' milk, and as representatives in matters of price determination, they have been unable to exercise control over prices which would be effective for any considerable period of time. In their early attempts at price control, cooperatives generally bargained for flat prices. However, the repeated argument that surpluses prevented price increases led the cooperatives to bargain for separate prices for milk used for sale in fluid form, and for milk used for manufactured products—the so-called surplus. Bargaining for separate prices for milk according to use gave rise to the present classified-use plan of selling milk. This plan is widely employed by cooperatives throughout the country, and is incorporated in all Federal regulatory programs for milk.

DEALING WITH MILK BUYERS

Cooperatives had hardly developed the classified-use plan as a method of pricing milk in such a manner as not to allow the surplus to depress the price for all milk when they were faced with the problem of the flat-price buyers. Under the classified-use plan, milk is sold to handlers at separate prices based on its value in the different uses. Milk for fluid use usually is sold at the highest price, milk for cream at a somewhat lower price, and milk for manufacture into products such as butter and cheese at the lowest prices. When producers are paid, they receive an average, or blend, of all of the prices weighted by the amount of milk sold in each class. Since there is almost always some milk sold in the lower-priced classes, the price which farmers receive for all their milk is lower than the price handlers paid for the milk used for fluid distribution.

On the other hand, in any market of considerable size, there are always a few handlers who engage only in the distribution of fluid milk. Such handlers have found that it is possible to buy milk from producers at a flat price equal to, or slightly higher than, that being paid by the cooperative for all milk, but which is substantially less than the price charged for milk for fluid distribution. With milk for fluid distribution bought cheaper than that of his competitors, the flat-price buyer is able to increase his business by cutting resale prices. The cooperative, in turn, in order to allow its buyers to compete effectively with the cut-price milk, also is forced to reduce its class 1, or fluid milk, price. But this reduction in class 1 price also reduces the blend price it can pay its producers, and allows the flat-price buyer in turn to reduce further his price to producers. Once the succession of price cutting starts, the price to producers usually declines to about the level of prices for manufacturing milk, and the premium which producers should receive for extra-quality milk is eliminated.

GOVERNMENT AID SOUGHT

Although the problem of recurrent price collapses and disorganized marketing processes was serious enough before 1930, when population centers were increasing and the consumption and prices for milk were rising, after 1930 the price of milk was continually being

depressed by the reduction in consumption of milk and other dairy products, and by the unprecedented competition among the various groups to retain or expand markets in the face of declining incomes. It was under these circumstances that cooperatives called upon Government for aid. Primarily, Government aid in fluid markets has taken the form of instituting universal application of the classified-price plan, and thereby eliminating the problems brought about by the presence of flat-price buying, the absence of any degree of price control by producers, and other circumstances which have characteristically resulted in disastrous price declines to milk producers.

ELEMENTS IN PRICE MAKING

Numerous elements must be considered in determining prices for milk in regulated markets. The propriety, or reasonableness, of a price for milk in a given milk market can be determined in a measure through the application of either or both of two approaches. The first involves the use of prices for dairy products which are determined by wider competitive forces than those in a particular local fluid milk market. The second approach involves the use of historical data on prices in relation to receipts and sales in the market.

ONE METHOD

In using the first approach for determining whether prices in a local market are reasonable, prices for milk used to make a basic dairy commodity such as butter or evaporated milk, or open market prices for cream, would be ascertained approximately at the extremity of the milkshed. The prices for milk used in these manufactured products are ordinarily thought of as being largely affected by Nation-wide conditions of supply and demand for dairy products, and as being affected only to a minor degree by local conditions. Hence, such prices represent the basic competitive price for milk of manufacturing quality at the outer edge of the milkshed. To this, price increments must be added for transportation costs and for the added costs of producing milk in compliance with the more stringent sanitary requirements of fluid markets. If the price of fluid milk is to be determined, a transportation allowance equal to the cost of transporting milk in fluid form from the edge of the milkshed should be added to the basic manufacturing price. If the price of milk for use as cream is to be determined, then the transportation premium would be equal to the cost of transporting the milk equivalent of the cream in the form of cream.

When a price for fluid milk has been determined in this way, it may be compared with the prices actually paid in the market. In making this comparison, certain additional and intangible elements must be taken into account, such as the particular value to certain handlers of relatively nearby supplies, adjustments in production made by producers to service more adequately their particular outlets, losses that may be entailed in handling reserve supplies commonly termed the "surplus," and convenience to inspection authorities in the maintenance of proper sanitary standards. It should also be noted that the use of this approach is limited by the difficulty of making adequate determinations as to the cost of meeting sanitary regulations on farms, and proper allowances for the various intangibles.

THE SECOND APPROACH

The second approach is probably easier to apply in practice than is the first. This approach is concerned with a study of the past relationships between prices on the one hand, and sales and deliveries of milk on the other. It also has limitations which arise from the fact that price alone, especially over short periods of time, is not the only factor exerting an influence on supply and sales of milk. After considerable periods of time, other things being the same, it is usually true that relatively high prices call forth increased supplies of milk. Thus, if prices to producers in a market are too high, increased supplies of milk become available which are not used in fluid form, but are made into the manufactured products. A good practical test, therefore, of whether prices to producers are higher than appropriate is the degree to which such prices appear to be calling forth increasing quantities of milk which have no use except for manufacturing purposes.

BOTH HAVE THEIR LIMITATIONS

In summarizing, it needs to be emphasized that both of these methods are subject to important limitations. Neither provides a complete and precise standard, and, wherever data are available, both approaches should be used. However, recognizing the limitations of the two approaches, and using the results mostly in the nature of guides, it is possible to form reasonable judgment respecting prices in a particular market.

GROUP INTERESTS IN MILK-MARKET PROGRAMS

The groups most interested in regulatory programs are the producers, the handlers, and the consumers. Although each has an interest, its focal point is different, and it may be said that some of the interests in the market are diametrically opposed to each other.

PRODUCERS AND PRICES

The milk producer is interested in the regulatory program as a device for increasing his net income. Whether all milk producers realize it or not, there is a definite limit to increases in income which can be obtained through the use of regulatory measures. Theoretically, on the short-time basis, producers' incomes cannot be increased beyond the point where, through the use of efficient devices for stratifying the demands in the several uses of milk, the total income from the sale of milk is maximized. But such an objective, if achieved, would necessarily be short-lived. The prices paid producers would be relatively high. Because the act specifically forbids any type of production control and permits no prohibition against milk produced anywhere in the United States, the market where such a price structure was maintained would soon be receiving large quantities of milk in excess of its requirements. If the class prices were maintained long enough (and this would probably be impossible), prices to producers would be reduced through the influx of additional supplies, until a new equilibrium was obtained.

Producers' prices might be higher under the new equilibrium than previously, but costs would also be higher, and producers would have

availed themselves nothing by maintaining prices at unreasonable levels. But during this process of readjustment, first to higher price levels and then to lower ones resulting from increased supplies, a great strain would be placed on the regulatory program which might result in its complete breakdown and the collapse of the price structure. Producers would then find themselves selling in a market characterized by great excesses of milk supplies, with no stabilization program at a time when one would be most needed. Thus, it appears to producers that their best interest is served by sponsoring movements to increase prices. This is true if such price increases are sound in relation to the economic conditions in the market. However, price increases which are not sound and which result in uneconomically large supplies being available for a market, can only work to the disadvantage both of producers already serving the market, by setting in motion forces which tend to disorganize and disrupt the orderly and efficient marketing processes, and of producers who invest their capital and effort to participate in the market.

HANDLERS AND MARGINS

In their attempt to get the greatest returns from their business, handlers are interested primarily in their margins, or the spread between the price they pay for milk and the price at which it is sold, and the volume of sales. Over longer periods of time, they should be interested in being able to purchase milk from producers at the lowest prices which will continue to bring forth an adequate supply of milk. During shorter periods, however, handlers frequently act in a manner which suggests that they desire to purchase milk at the lowest possible price, irrespective of whether such a price is likely to enable producers to continue to supply milk, once their inventory of farm resources has been drastically reduced. But for the most part, having assured themselves of adequate supplies, handlers are interested in maintaining margins at a point so that the difference between their total income and their total cost is as great as possible. Whether this margin is relatively large or small depends on many factors, including the relationship of variable to fixed costs, and the degree to which consumer preference for the individual handler's product can be maintained.

Most handlers are also interested in the enforcement of the regulatory program. They believe that if all handlers are required to pay the same price for milk sold as fluid milk, unfair competition resulting from the buying of milk at lower prices by some handlers will be eliminated. Where such competition is eliminated, destructive price cutting to consumers may be prevented, and the price wars, detrimental to both producers and handlers, may be brought to an end.

CONSUMERS AND THE COST OF MILK

In general, the interest of the consumers is to purchase milk at a price low enough so that they can obtain economically a quantity adequate for their needs. However, consumers do not wish the lowest price possible, for they are concerned that the producers receive prices such that an adequate supply of milk of high quality is at all times

guaranteed to them. Nor do consumers wish to see prices such that distributors' margins are decreased to the extent that they are forced out of business. They wish to have milk prices as low as possible, and yet maintain their supply of milk, together with adequate processing and distributing services. For this reason, they are interested in having prices to producers at levels which will assure an adequate supply of milk over a long period of time. With respect to handlers, consumers believe that spreads should be sufficient only to maintain the capital and labor necessary efficiently to provide them with the distributing services.

OBJECTIVES OF MILK-MARKET REGULATION

The objectives of a regulatory program are to bring about a reasonable and just balance between the various interests in the milk market. In the short run, they are primarily to insure the producer an adequate return for his product. In the long run, they are primarily to insure the market of an adequate supply of milk and to aid farmers in securing enough compensation for the continued production of an adequate supply.

The short-run objective is of importance as an emergency measure. The program is usually designed to bring about an immediate increase in price to the producers. A price increase is usually in order, because, generally speaking, the request for a regulatory program usually comes after other means of controlling the market have failed. Producers are particularly vulnerable in their position relative to consumers and handlers in the market, because of the nature of the dairy-farming business, and because of the nature of the competition among farmers for markets for their milk. Producers of milk have relatively heavy investments in land, buildings, and machinery, and, at the same time, have very little bargaining power with handlers. Because of their specialized investment, the alternative farm enterprises for dairy farmers are usually quite limited. Frequently they are practically forced to accept whatever prices handlers wish to pay them for milk, because they cannot readily convert their investment into cash to start the production of some other crop. Therefore, dairy farmers continue to produce milk even after they no longer receive a price for it greater than the marginal cost of production.

Over a longer period of time, because of freedom in most markets of entry into the milk-producing business, and because of the lack of differentiation of the product of individual producers, probably no income advantage can be secured to milk producers other than that attributable to the development of stabilized conditions in the market, to decreases in the risks involved in milk production, or to other similar factors.

THE ULTIMATE GOAL

Stability in the industry marked by reasonable prices is the ultimate goal of regulation. The establishment of prices to producers at a reasonable level will enable them, over a long period of time, to continue to produce an adequate volume of milk of required high quality. Such a price should return producers an adequate standard of living, but should not induce more producers into the field of milk production

from other farm enterprises than are necessary to provide an adequate supply of milk.

It is desirable to have the class 1 price, or the price of fluid milk, as low as possible, and at the same time have the blend price, or the price paid to producers, as high as is consistent with securing only an adequate supply of milk. This price objective may be best accomplished in part by assisting producers to get the greatest returns from surplus milk, or that milk used for purposes other than fluid milk, and in part by the maintenance of class 1 prices at a level consistent with heavy consumption of fluid milk.

The amount of surplus milk supplied the market should be kept at a minimum over a period of years. It is economically wasteful to encourage the production of milk that meets stringent sanitation regulations, and use it for manufactured milk products where the milk so used need not meet expensive sanitation regulations. However, a certain amount of surplus must be available, even during the season of short supplies, in order to allow for changes in either the demand or the supply. A long-time program, which accomplishes these objectives, is in the public interest.

COOPERATIVES AND MILK-MARKET REGULATION

From the earliest beginning of milk-market regulation, the part played by cooperative organizations of milk producers has been of major significance. This was true not only in the sense that these organizations were among the active sponsors of the legislation which incorporated provisions for milk regulatory programs, but also because their own marketing programs largely provided the basis for regulation by governmental agencies.

Governmental programs for the regulation of milk marketing may be considered as largely an extension and continuation of the work of cooperative marketing associations. The objectives of the governmental programs bear a striking similarity to the objectives of the cooperative programs, and it was these programs which provided the pattern or framework for the governmental programs. One of the major objectives of milk cooperatives is to increase returns to producers through improving their bargaining position and to establish orderly marketing conditions for the product of their producer-members. As compared to this, the policy of Congress as stated in the Marketing Agreement Act is to encourage such orderly marketing conditions for milk as will establish prices at the so-called parity level. If the parity price is found to be unreasonable in view of local supply and demand conditions in the marketing area under consideration, such prices may be fixed as will reflect those conditions, insure a sufficient supply of pure and wholesome milk, and be in the public interest.

The marketing methods authorized by the act also are similar to those first developed by cooperatives. For example, the classified price plan of selling milk to producers, included as one of the terms of the orders issued under the Marketing Agreement Act, was originally developed and used by cooperatives. Cooperatives also developed the individual-handler pool and market-wide pool as methods of prorating to producers the proceeds of sales to handlers. Orders issued under the act provide for one of these types of pools.

COOPERATIVE FUNCTIONS NOT DISPLACED

Through the milk market regulatory programs, the Federal Government does not undertake to perform the functions of cooperatives but rather to supplement their activities. Some functions of the cooperative remain entirely unaffected by Federal regulation. The services rendered producer-members by the cooperative, other than the negotiating of prices with distributors, are not attempted by the Government. The cooperative still has the problem of selling the milk of its members under the fixed prices. It also has the problems of checking the weights and tests of members' milk and of guaranteeing members a market outlet. While it may be true that the price-making functions of cooperatives are modified to some extent, the modification probably is more apparent than real, particularly in light of the limitations imposed by the act and the methods authorized for the promulgation of orders. Not only was the act drafted in such fashion that cooperatives are to be definitely encouraged under it, but regulatory experience indicates that, unless there is a strongly functioning cooperative in the market, the cornerstone for a successful program is lacking.

RECOGNITION ACCORDED COOPERATIVES

The place of cooperatives in a regulatory program is definitely recognized in a number of ways by milk control legislation passed by both State and Federal Governments. The Marketing Agreement Act confers several prerogatives upon cooperative associations which entail corresponding responsibilities.

VOTE FOR MEMBERS

Section 12 of the act provides for cooperative association representation in the determination of producer approval of a proposed order. Under this provision, the Secretary of Agriculture shall—

* * * consider the approval or disapproval by any cooperative association of producers, bona fide engaged in marketing the commodity or product thereof covered by such order, or in rendering services for or advancing the interests of the producers of such commodity, as the approval or disapproval of the producers who are members of, stockholders in, or under contract with such cooperative association of producers.

By this provision, a cooperative, if it so chooses, is permitted to voice a unified opinion on the question of adopting or rejecting a regulatory order.

CONTINUE SERVICES

Section (5) (E) provides for the furnishing of certain marketing services to producers in a market under regulation, except to those producers being furnished such services by a qualified cooperative. This provision of the act recognized the function of cooperatives in performing certain services for its members, such as the checking of weights and tests of members' milk. While Congress recognized the value of these services in contributing toward stability in milk marketing, and wanted to insure their extension to the entire market brought under regulation, it apparently did not want cooperatives already furnishing these services to be supplanted in their function by the agency administering the Federal agreement and order.

MAY BLEND PAYMENTS

Section (5) (F) provides that cooperatives qualified under the Capper-Volstead Act shall not be prevented from blending the proceeds of sales in all markets and distributing them to producer-members according to their contracts with members. This part of the act protects the right of producers organized in a cooperative association to determine their own method of distributing the proceeds of milk sales among themselves. While the Federal orders in milk markets provide a definite method of distributing the proceeds of sales among all producers in these markets, and so maintain equitable relationships among independent producers and cooperative producers as groups, they nevertheless permit association producers to redistribute these proceeds in accordance with any plan to which they agree. The provision is of particular importance in protecting the integrity of an association marketing the milk of its members in several different markets.

MEDIATION AND ARBITRATION

The act further provides for mediation or arbitration of disputes between dealers and producers by the Secretary of Agriculture or such employee of the Department of Agriculture as may be designated by him when requested to do so by any cooperative association, owned or controlled by producers or organizations thereof, and which is bona fide engaged in collective processing, or preparing for market or handling or marketing of milk or its products. This provision offers a definite service to producers acting through a bona fide cooperative association, which is not available to other producers.

QUALIFICATIONS FOR A COOPERATIVE

As far as its structural form is concerned, an organization, in order to qualify as a cooperative, should meet at least the following requirements:

1. It should have authority to market the products of its members.
2. In case of a stock corporation, dividends should be limited to 8 percent, as required by the Capper-Volstead Act, or that part of the business of the company, where the wishes of the membership are necessary to its conduct, should permit the membership to vote, using the principle of "one man—one vote."
3. It should have as voting members only producers, and preferably those who are producing the commodity being marketed by the association. In the case of a nonstock cooperative, only active producers should be members and have voting privileges, and in stock cooperatives, the voting stock should be limited to actual producers.
4. The rules for the election of officers of the organization should be such that control by a small minority would be practically impossible.
5. The means by which producers can become members should be open, and should provide for the assumption of definite obligations by both the producer and cooperative.
6. Its nonmember business should not exceed member business in terms of value or quantity.

Presumably, it is possible to determine whether an organization meets these listed requirements rather quickly by reference to its

articles of incorporation, bylaws, membership contract, and records showing the volume handled for members as compared to that handled for nonmembers. However, the problem of determining whether the organization actually is producer controlled may be quite difficult, since, although all requirements may be met on paper, investigation of the manner in which the cooperative operates may show that the requirements are not met in actual operations.

RESPONSIBILITIES OF COOPERATIVES

Because the Federal regulatory programs are an outgrowth of the work of the cooperative associations in improving the position of the producer in marketing his product, and because these associations have been granted important prerogatives by Congress in connection with the carrying out of these programs, the cooperative associations have had to bear important responsibilities in connection with these measures. The responsibility of the cooperatives is a continuing one. It starts with the petitioning of the Secretary for a public hearing on a proposed agreement and order and continues at each step of the way thereafter. The cooperative is largely responsible for presentation of evidence at the hearing; it bears a key responsibility when the instrument is presented to producers for their approval; and, when regulation is made effective, its success and continuation depend largely upon the intelligent and active support of the cooperative.

Once a regulatory program is adopted in a market, the cooperative association must be alert to changing circumstances in the market which may make changes in the program necessary, and it must be ready to propose and support such changes. At the same time the association must carry out its own functions as a cooperative. A sound, growing cooperative is essential to a sound marketing program. It must continue performing its services for its members and must maintain control over the allocation of sales to handlers in a manner contributing to the stability of the market. The organization must be ready to carry out its functions as a bargaining agency to obtain prices for its members above the minimum prices established by the program, whenever conditions arise which make such higher prices desirable.

RIGHTS OF PRODUCER GROUPS ESTABLISHED

The prerogatives extended by the act to cooperative associations have been challenged at various times. The recent decisions of the Supreme Court in the New York and Boston milk cases have served to clear up several questions in regard to these prerogatives. These questions involved the constitutionality of the provisions of the act relating to (1) producers' approval of orders, (2) the right of cooperative associations to cast the votes of their members, and (3) exemption of cooperatives from uniform pricing provisions of orders. In addition to these constitutional questions, further questions were answered by these decisions relating to (1) the rights of a cooperative to campaign during a producer referendum, (2) the right of a cooperative to vote in a producer referendum without polling its membership, and (3) the status of an agent type of cooperative as distinct from the sale type of cooperative.

PRODUCER VOTING

In the New York case, objection was made to the provision of the act with respect to producer approval of the issuance of an order. This was alleged to constitute an unlawful delegation to producers of the legislative power to put an order into effect in a market. The Court in its opinion stated:

In considering this question, we must assume that the Congress had the power to put this order into effect without the approval of anyone. Whether producer approval by election is necessary or not, a question we reserve, a requirement of such approval would not be an invalid delegation.

Upon the question raised with respect to the authorization of co-operatives to cast the votes of producer patrons, the Court stated:

This objection, too, falls before the answering argument that inasmuch as Congress could place the order in effect without any vote, it is permissible for it to provide for approval or disapproval in such way or manner as it may choose.

On the question of whether a cooperative association must conduct a formal poll among its members prior to voting in the producer referendum, the Court said in the Boston case:

Section 8c (12) directs the Secretary to consider the approval or disapproval of cooperatives as the approval or disapproval of members. This is complete authority for the action of the Secretary. He need not require further referendums by cooperatives themselves. Presumably they will vote with an eye to the best interest of their members.

Another matter relating to cooperatives, which was reviewed in the New York case, was connected with the campaign conducted by an association for the adoption of the order. It was alleged that activities of the association prior to the producer referendum were marked by fraud, misrepresentation, and coercion. The specific allegations of fraud and misrepresentation were examined by the Court and found to be insufficiently substantiated in this case. With respect to the allegation of coercion, the Court stated:

The coercion * * * exercised upon the handlers after the adoption of the order to force or induce them to acquiesce in its operation, is of the same indirect character as the alleged misrepresentation. It is the partisan coercion of the producer seeking to compel dealer support of the plan by the threat of the use of his economic power over his own milk. * * * These associations of producers of milk have a vital interest in the establishment of an efficient marketing system. This adequately explains their interest in securing the adoption of an order believed by them to be favorable for this purpose.

DISTINCTIONS DRAWN

The objection to the provision of the act and the New York order which excepted producers' cooperatives from the requirement to pay the uniform price for milk is dealt with in the following manner by the Court:

These agricultural cooperatives are the means by which farmers and stockmen enter into the processing and distribution of their crops and livestock. The distinctions between such cooperatives and business organizations have repeatedly been held to justify different treatment.

A further question with respect to cooperatives in the New York case was whether a cooperative which acts as the agent for its members was to be treated in the same manner as the "sale" type of cooperative which purchases the milk of its members and markets such milk

on its own account. The Court ruled that no distinction was intended either in the act or in the New York order between these two types of cooperative associations.

LOOKING AHEAD

In all probability the future of the cooperative movement in the dairy industry is very closely tied up with the future of regulatory programs. This appears to be true because the existence of the regulatory programs was largely the result of the efforts of the cooperatives. The regulatory programs represent an extension of cooperative principles to stabilize milk marketing and to improve the well-being of dairy farmers. The existence of the regulatory programs does not mean that there is a lessening in the importance or responsibility of cooperatives. It merely creates a new channel into which cooperative effort may be directed. It would be impossible to have the type of regulatory program which exists today without strong cooperative organizations. By the same token it is becoming increasingly apparent that successful regulatory programs are necessary if cooperatives are to succeed in fulfilling the functions for which they were organized.

If the success of regulatory programs is important to the successful continuation and expansion of the cooperatives, it is essential that they work intelligently to promote sound regulatory policies. Such policies can be promoted only by cooperatives which understand the limitations as well as the potentialities of regulation.

A COURSE TO FOLLOW

In their support of a regulatory program, cooperatives must sooner or later discover that such a program must take into consideration the interests of all groups, including consumers, handlers, and producers who are not members of a cooperative. They must give consideration to consumers who are interested in an uninterrupted supply of milk of high quality at a fair price. The cooperatives must also avoid proposing measures which do not take full cognizance of the welfare of nonmember producers, for their support is also necessary for a successful regulatory program. Lastly, the cooperatives wishing to promote a successful regulatory program must give some consideration to the effect of the program upon the handlers to whom they must sell their milk. A sound regulatory program should promote the legitimate business interests of the handler who wishes to operate at a reasonable margin of profit while paying a fair market price to producers for his supplies of milk.

PUBLIC OPINION

As the regulatory programs are developed and experience is gained by the cooperative leaders and governmental officials in carrying them out, these factors are being given greater recognition and the basis is being laid for a sound relationship between the cooperatives and the programs. In the long run, however, public opinion will determine the continuance of the regulatory programs for milk. This opinion will be formed largely upon the results of the programs as they affect the well-being of all groups—consumers, handlers, and producers.

MARKETING AGREEMENT PROGRAMS FOR CROPS

Marketing-agreement programs in effect during the fiscal year for commodities in the fresh-fruit and vegetable field, and for nuts, hops, and tobacco totaled 20, of which 13 were in actual operation. All of the programs were in effect through marketing agreements and orders, except one program for Connecticut Valley shade-grown tobacco which continued through a marketing agreement and license. Commodities under these programs had an annual farm value of over \$130,000,000 and were produced by more than 90,000 growers.

SCOPE OF OPERATIONS

Activities in connection with marketing-agreement programs in this field included the supervision of existing programs, the analysis of supply and demand conditions affecting the marketing of the various crops, analysis of problems arising out of the operation of the different programs, cooperation with State agencies in the development and operation of authorized programs to improve selling conditions for producers, and cooperation with producer and handler groups in activities designed to encourage better understanding and more effective action among the various groups in dealing with marketing problems and crop surpluses.

During the year a number of requests were received from producer and handler groups interested in the development of new marketing-agreement programs or in revising programs already in effect. By the end of the fiscal year several public hearings had been held or were contemplated as a result of these requests. Four of the marketing-agreement programs in effect were terminated during the year because they had either become inoperative or were to be replaced later by new programs.

TABLE 2.—*Estimated number of growers and approximate annual farm value of crops for which marketing agreement programs were in effect during the fiscal year 1939*

Marketing agreement program	Number of growers	Farm value (1,000 dollars)	Marketing agreement program	Number of growers	Farm value (1,000 dollars)
Walnuts—California, Oregon, and Washington ¹	14, 000	11, 237	Hops—California, Oregon, and Washington ¹	1, 274	5, 546
California-Arizona citrus ¹	20, 000	43, 412	Package bees and queen bees ¹	250	450
Western Washington vegetables	1, 300	1, 146	California, Oregon, and Washington fall and winter pears ¹	3, 000	1, 600
Watermelons—Florida, Georgia, North Carolina, and South Carolina ¹	10, 000	2, 518	Florida citrus ¹	20, 000	35, 155
Colorado vegetables ¹	250	946	California Elberta peaches, Bartlett pears, plums, apricots, and cherries	7, 000	6, 784
Utah onions	180	220	Mississippi tomatoes	2, 750	540
Texas citrus ¹	7, 500	6, 190	California Hardy pears ¹	500	270
Oregon cauliflower	300	88	Connecticut Valley shade tobacco ¹	54	3, 636
Florida celery	385	3, 289			
Cantaloups—Imperial County, Calif., and Yuma County, Ariz.	79	9, 413			
Arkansas grapes ¹	1, 000	192	Total programs in effect	90, 422	133, 009
Fresh prunes—Eastern Oregon and eastern Washington ¹	600	377	Total programs in operation	78, 007	120, 672

¹ Operative during the fiscal year 1939.

WIDE RANGE OF PRODUCTS

The programs for the various crops cover a wide range of commodities produced in widely scattered sections of the country. For example, during the last year marketing agreement programs were in effect for Pacific coast walnuts and hops, for package bees and queens produced in the Southern and Western States, and for shade tobacco grown in the Connecticut Valley. These may roughly be classified as nonperishable commodities. Citrus fruits grown in the principal producing areas of California-Arizona, Florida, and Texas may be classified as semiperishable commodities for which programs were in effect. Other marketing agreement programs included the following perishable commodities: Watermelons grown in the Southeastern States; Colorado peas and cauliflower; cantaloups, Honey Ball, and Honey Dew melons grown in the Imperial Valley of California and Yuma County, Ariz.; Arkansas grapes; fresh prunes grown in Oregon and Washington; and fall and winter pears grown in the Pacific Coast States.

The size of the various agricultural industries affected by marketing agreement programs varied greatly. In the package bee and queen industry, for example, there were roughly 250 producers, each of whom was a handler. In California-Arizona citrus, on the other hand, there were approximately 20,000 producers and 150 handlers, or shippers. It is estimated that there were approximately 15 shippers of fresh Italian prunes grown in Oregon and Washington, while there were nearly 600 shippers of oranges and grapefruit grown in Texas during the 1938-39 season.

MAIN PROVISIONS OF PROGRAMS

The marketing agreements and orders in general provide for an administrative agency, and for the issuance of regulations to govern the handling of the commodity, or shipments out of the defined producing area. The administrative agency is dominated by the membership of growers, and it usually consists of one committee named from among nominees elected by growers and handlers to represent the respective group interests. In some instances, there are two committees, one of growers responsible for administrative action, and the other of handlers who act in an advisory capacity.

Recommendations for regulations which are to govern shipments are made by the administrative agency to the Secretary of Agriculture, who is responsible for putting any regulation under a marketing agreement program into effect. The nature of the regulation varies with conditions both in the producing area and in the markets, and is governed by the limitations prescribed in the marketing agreement and order and by the Marketing Agreement Act.

OPERATING PROBLEMS VARY

The problem of regulating shipments differs with each crop and with each season. One consideration is the length of time during which a commodity may be stored. This, of course, varies with the degree of perishability of the product. The length of the harvesting season likewise affects the nature of the regulation which may be

issued, and there are many commodities which must be harvested as soon as they are mature. Other commodities—certain varieties of citrus fruits, for example—may be held on the tree for a period of several months after maturity has been reached.

Also, the problem of regulating shipments varies with the nature of the marketing institutions in the various industries for which marketing agreement programs are in effect. In the Pacific coast hop industry, the product is processed and made ready for final sale by the growers, while in all other industries for which marketing agreements were operating during the year some form of packaging or processing was completed by handlers. In the Pacific coast walnut and California-Arizona orange industries, more than 85 percent of the total volume of shipments was made through cooperative marketing organizations, while in the California-Arizona cantaloup and Pacific coast hop industries the volume handled by cooperative marketing organizations was relatively small.

ONE COMMON CHARACTERISTIC

There was one characteristic, however, which was common to all the industries in which marketing-agreement programs were in effect during the last year. The distance over which the commodity was shipped to the principal consuming markets in each case was relatively long. It is estimated that the average length of haul to consuming areas was in no case less than 800 miles, and in the case of the Pacific coast industries it averaged over 2,000 miles.

These rough comparisons illustrate the large number of different conditions affecting the various agricultural commodities for which marketing-agreement programs were in effect. Further complications are added by the differences in the markets to which the many commodities are shipped, the variations in the price structure of each and the methods of sale, and by the differences in quality and type of competing products.

FLEXIBLE POLICIES FOLLOWED

A large number of the crops affected by regulations under marketing agreement programs are of a perishable nature, and the time of marketing has a considerable effect upon prices and returns to growers. A difference of a week or two in the period of maturity of Colorado vegetables, for example, may result in a marked difference in the prices and incomes received by growers of these commodities. Furthermore, since there is no carry-over from year to year in the case of most of the perishable commodities, damage to crops from weather conditions may result in extreme variations in marketing conditions. It is impossible to forecast accurately marketing conditions which may prevail from time to time in the case of perishable commodities. Consequently, marketing policies must be flexible enough so that they may be modified readily as conditions during the season change.

PROGRAMS ARE INDUSTRY-WIDE

From a broad standpoint, the marketing programs established under marketing agreements and orders relate to the industry as a whole rather than to a large number of individual producers, as is the

case in a number of the other farm programs. For example, in some programs the individual producer is given an opportunity to determine whether he thinks the advantages accruing from his participation more than offset the disadvantages which may result from his performance under the program. He elects to cooperate under the program regardless of the activities of his neighbor. Furthermore, 100-percent cooperation in the program is not essential for its success. In marketing agreement programs, on the other hand, it is essential that all growers and handlers cooperate. The activities of a very few individuals who do not cooperate may result in the breakdown of the whole program.

In the development of marketing agreement programs, therefore, it is continually borne in mind that these programs are developed for industries as a whole. Careful consideration is given to the development of a program which will treat all growers and handlers equitably and provide standards which will permit adjustments by individuals who might be adversely affected by the operations of the program's provisions.

OBJECTIVES SOUGHT

Marketing agreement programs for farm crops seek to improve and maintain the income and well-being of growers from a long-time point of view. This implies that the nature of regulations and the extent to which they are established for any commodity are judged in the light of longer-time objectives, as well as on the basis of the data relating to the season or portion of the season for which the regulations are established. Whether or not supplies of the given commodity under regulation or of competing commodities indicate increasing or decreasing trends, therefore, may affect decisions relating to the extent of regulation deemed advisable. Similarly, trends in costs, shifts in comparative advantage, and changes in other basic factors may also affect the nature of marketing policies employed in the operation of marketing agreement programs.

TYPES OF REGULATION

Three main types of regulations were used in marketing agreement programs during the last season. Regulations of volumes shipped to principal consuming markets were employed in the case of California-Arizona and Texas citrus fruits, Pacific coast walnuts and hops, and Oregon and Washington fresh prunes. Regulations of grades and sizes shipped to consuming markets were established in the case of Florida and Texas citrus fruits, southeastern watermelons, Colorado vegetables, California-Arizona cantaloups, Arkansas grapes, Oregon and Washington fresh prunes, and Pacific coast fall and winter pears. There were price-posting provisions in effect in the marketing agreement programs relating to Oregon and Washington fresh prunes and to package bees and queens.

ADJUSTING VOLUME OF SHIPMENTS

Volume regulation is designed to control the volume of shipments of a given commodity in specified channels during a given period of time. It is a type of regulation which undertakes to modify available market supplies to what are deemed advisable market supplies with

the view of increasing grower returns. In practice, its application results in surplus pools or restriction of season marketings for non-perishables, and in what is considered orderly flow to market for semi-perishable and perishable commodities. It is a difficult type of regulation to administer in that it presupposes thorough knowledge of demand conditions, accurate determination of available supplies, and equitable allotment of the advisable quantity among shippers.

During the year volume regulation resulted in direct elimination of supplies of only one commodity, hops grown on the Pacific coast. In the case of other commodities the principal aim of volume regulation was to market the entire merchantable supply in such a manner as to bring prices and returns to growers above what would have been received in the absence of such regulation. This is one of the main objectives of orderly marketing of supplies.

PROMOTES ORDERLY SHIPPING

The emphasis in volume regulation has been placed on orderly movement of supplies, rather than on curtailment of supplies as was the case in the early years of marketing agreement programs. As condition of demand improved following 1933 and 1934, the levels of demand schedules for growers' products were raised, and grower prices and returns increased above the emergency levels of the depression years. Also, public sentiment, because of rising prices of food staples in 1934, rose against reduction of season supplies of agricultural commodities. The transition from volume restriction to volume regulation reflects a transition from an emergency, or depression, approach to a long-time or normal approach to the problem of improving the welfare of growers in the marketing of their products.

WHEN VOLUME REGULATION IS APPLIED

Volume regulation has been undertaken when conditions of market demand for the commodity in question are such that grower returns would be improved by regulation of the shipments of the commodity. For example, the limiting of the total volume of a given commodity to be marketed during a season may be undertaken when the relationship between the price to growers and the quantity that can be sold at that price is such that growers would receive a larger total return by marketing the smaller volume during the season than by marketing a larger volume.

Also, volume regulation may be put into effect to make possible the diversion of a portion of the total supply to other than normal outlets for the purpose of improving grower returns from the entire crop. For example, Pacific coast walnut growers are able to improve their returns by diverting a portion of the merchantable supplies from the domestic unshelled market into exports and the shelled market. Conditions of demand for walnuts are such that growers receive increased total returns when quantities are diverted from the domestic unshelled market for use in export and shelled outlets.

The volume regulation in effect for Pacific coast hops during the last year consisted of restriction of the total quantity shipped to commercial markets. The regulation carried on in this commodity was unique in that allotments were issued to growers. This was possible

due to the fact that the product is processed and made ready for final sale by the producers. Growers received their allotments before harvesting operations were completed, and, therefore, made savings on the costs of harvesting and marketing that quantity of the product which they were not permitted to sell in commercial channels. This saving in the case of hops was quite substantial, for it is estimated that roughly two-thirds of the entire cultural and marketing costs for hops are incurred in harvesting, drying, and baling the commodity. The economic basis for restriction of total supplies in this case rested on the fact that the demand schedule at the grower point is extremely inelastic.

GOVERNING RATE OF FLOW

Regulations which involve control over the rate of flow to market were established for California-Arizona oranges, Texas grapefruit, and Oregon and Washington fresh Italian prunes during the year. These regulations were designed to facilitate marketing the entire merchantable supply available during the period of regulation in an orderly fashion, and did not directly result in elimination of supplies from commercial channels. In the case of Oregon and Washington fresh Italian prunes, preliminary analyses indicated that growers tended to receive maximum returns for shipments at a certain rate of flow. Through the regulation of shipments under the marketing-agreement program it was possible more nearly to achieve this rate of flow than would have been the case in the absence of regulation. Stated more simply, the performance under regulation prevented the occurrence of a normally glutted market when shipments reached their peak, and analyses indicate that this tended to improve grower returns from commercial sales of the commodity.

As the level of the demand schedule for a commodity during a given period of time is raised or lowered, the volume of shipments at which optimum grower returns prevail is increased or decreased. Grower returns over the season will tend to be improved if the rate of flow of shipments is increased when the demand schedule rises and decreased when the schedule falls. This, in rather technical terms, provides an economic rationale for the recommendations of grower committees for adjusting the rate of flow of their commodity to changing conditions of demand as indicated to them by current market data.

EFFECT OF CITRUS VOLUME REGULATION

The incomes of growers of Texas grapefruit and California-Arizona navel and miscellaneous oranges were maintained, although probably not appreciably improved, by volume regulations in effect for these commodities during the 1938-39 season. The limiting factor with respect to volume regulation for these commodities was the fact that shipments from these areas did not constitute a major portion of the total shipments of these commodities during the period of time in which the regulations were in effect. Consequently, growers from other areas were in position to benefit from the regulations, and the range within which regulations could be issued was limited.

Volume regulation of California-Arizona Valencia orange shipments, however, is believed to have appreciably improved grower returns, since the industry was able to take advantage of fluctuations in its demand schedule during the season. In the early weeks of the shipping season the demand schedule for that product is relatively low in view of the large volumes of competing oranges shipped from Florida. As the season progresses, however, shipments of Florida oranges decline and demand conditions improve for California-Arizona summer oranges. By holding back shipments during early weeks of the shipping season and increasing the rate of flow during the late summer months, growers of California-Arizona Valencia oranges were able to improve returns for their crop.

GRADE AND SIZE REGULATION

Regulation of grades or sizes of commodities shipped to commercial channels was established in eight of the marketing agreement programs operated during the last year. Grade or size regulations were established for more commodities during the last year than in any other year since marketing agreement programs were established.

Regulation of grades and sizes relates to the designation of grades or sizes of a given commodity which may be shipped during any period of time. Although regulations of this nature were permissible under the authority given to the Secretary in the blanket provisions of the 1933 Agricultural Adjustment Act, they were not employed in marketing agreement programs for semiperishable and perishable commodities until the 1934-35 season. Since that time grade and size regulation has been given increased recognition as a mechanism whereby growers of semiperishable and perishable commodities may increase their returns.

THEIR APPLICATION

Grade and size regulations, to the extent that they increase or decrease the total volume of shipments during a given season, or accelerate or retard the rate of shipment within given periods of a season, tend to influence grower returns. A part of the influence upon grower returns is due to the effect of the regulation upon the volume shipped. Grade and size regulation, however, influences grower returns through affecting the quality as well as the quantity of the commodity permitted to be shipped during the period in which the regulation is in effect. Broadly speaking, grade and size regulations have in practice limited the movement of grades and sizes discounted in the market. The generalization has been made that with less desirable portions of the commodity limited by grade and size regulation, the average quality of the shipments to consuming markets has been increased (increased with reference to consumer preference as indicated by consumer purchases) with a resultant average price higher than would have existed in the absence of regulation, and, consequently, higher returns to growers.

In some instances, grade and size regulation has been put into effect to bring about improvement in maturity of shipments of semiperishable and perishable commodities shipped during the early weeks of a season. Experience has indicated that shippers of these

commodities tend to ship immature fruit or vegetables during early weeks of the season in order to take advantage of high prices existing during these weeks when the volume of shipments is small. Industry members contend that immature shipments at this time tend to affect adversely consumer demand for these commodities for a period of time, with resultant depressing effects upon grower returns. Moreover, price analyses indicate that prices received for commodities during these periods are often less than could be expected for the volume of supplies available for consumption. A size regulation may be employed to achieve these results when commodities are of such a nature that they may increase in size and maturity without becoming overripe for shipment.

SOME EFFECTS

Grade and size regulation may result in volume regulation. Elimination of certain grades and sizes from shipment to market tends to result in a decrease in volume of shipments during the given period, though it may result in a larger volume of shipments in a subsequent period if restricted small sizes grow larger without becoming overripe for shipment. Grade and size regulations which are instituted for the purpose of improving maturity of shipments early in the season do not, as a rule, result in elimination of any of the product.

For most perishable commodities grade and size regulations usually result in elimination of the restricted grades and sizes if the regulations are instituted after the early part of the season when the commodities have not reached maturity acceptable for shipment for consumption. Commodities of this nature, when mature, usually cannot be held in the field for any appreciable time without becoming overripe for shipment.

POLICY FOLLOWED

In administering grade and size regulations for perishable commodities during the shipping season when the intent has not been to improve the average maturity of the commodity, the general policy has been to put them into effect only in cases where it was believed that the prohibited grades or sizes would have returned, if permitted to be shipped, prices to growers which would not cover the direct costs of harvesting and marketing the commodity.

PROVISIONS FOR PRICE POSTING

Price posting relates to the provision which may be incorporated in a marketing-agreement program to the effect that no shipper may quote, offer for sale, or sell the commodity at prices other than the prices contained in his posted schedule. In the event of a price change, shippers may issue new price schedules, but are not permitted to quote, offer for sale, or sell the commodity at the new schedule of prices until a designated period of time has elapsed.

Price-posting provisions were established in the marketing-agreement programs for Oregon and Washington fresh prunes and for package bees and queens during the 1938-39 season. Price-posting regulations do not purport to exert any direct influence upon prices and grower returns, but are provided for the purpose of indirectly

affecting grower returns through enabling growers and handlers to obtain better knowledge of the market conditions and keeping handlers from undercutting the market before posting notice.

LIMITED USE OF PRICE POSTING

The posting of prices appears to be a reasonable measure if the intent is purely to insure the spreading of market information and not to exert any influence upon the level of market prices. It may be true that a demoralized market can be the result of selling activities of a minority of shippers acting upon information which is not complete or true, and price-posting provisions which prevent this appear to be justifiable. It must be borne in mind, however, that moral suasion exerted upon handlers by price-posting provisions not to reduce prices when prices should decline results in unfavorable repercussions upon growers. Moreover, in the event the market is declining and attempts are made to prevent this decline through encouraging shippers not to post lower prices, the shipper who violates will increase his returns above those of his competitors. Roughly speaking, it appears that price-posting provisions present industry groups with mechanisms whereby some form of price control may be attempted and probably would be attempted in the event of price declines. Economic considerations, however, reveal the futility of effective price control in the absence of volume control.

ALL TYPES EMPLOYED

The foregoing provides a brief discussion of the types of regulations established under marketing agreement programs during the last season and the economic bases of these regulations. It is apparent that regulations relating to volumes and to grades and sizes shipped to commercial markets constitute the two principal mechanisms which are established in marketing-agreement programs for the purpose of improving and maintaining grower incomes.

CONDITIONS VITAL TO A PROGRAM

Experience in regulating shipments indicates that certain conditions must exist in an industry before a marketing agreement program can operate successfully. In the first place, regulations cannot be consistently and effectively operated without thorough appreciation by industry groups of the fundamental principles involved in marketing control. It is not uncommon for some to feel that the very issuance of regulation orders will bring about an increase in price and improvement in grower returns.

Performance of regulations has in no case indicated that the mere existence of regulations increased prices above what would be expected for the volumes and composition of supplies moving to market. It must be realized that to influence returns and prices effectively actual regulation of shipments must be brought about. Moreover, grower groups must recognize the responsibility of growers under orderly marketing programs. The generalization may be made that a marketing-agreement program extends the principle of cooperative marketing to all growers and handlers of the commodity within the area embraced by it.

SHARE IN BENEFITS AND BURDENS

A marketing-agreement program for a crop is instituted for the purpose of bringing about a change in either the volume or composition of supplies shipped to commercial markets. This implies that growers and shippers must relinquish some of the rights which heretofore they had considered to be inalienable, namely, individual determination of the quantity and timing of the sales of their commodity, to an organization directing the marketing of the commodity for the welfare of growers as a whole. It is essential for the continued success of marketing-agreement programs that growers be thoroughly acquainted with the implications of regulation of shipments. In addition to being acquainted with the benefits to be derived from marketing-agreement programs, growers have to understand what obligations they must assume and what rights they must relinquish to some central agency in order to effectuate the purpose of a marketing-agreement program.

CROP ESTIMATES ESSENTIAL

It is extremely important that agricultural industries in which marketing-agreement programs are established be equipped with an adequate crop-estimating service. In some cases crop-estimating systems which have been established by the agency administering marketing-agreement programs have improved greatly upon the crop estimates available for these commodities prior to the establishment of marketing-agreement programs.

It is, of course, obvious that a program of volume regulation cannot be effectively undertaken until accurate estimates are at hand relating to supplies available for shipment. It is essential that crop estimates be made not only for the entire crop but also for whatever districts may be necessary in the event regulation is established by districts. In some instances it may even be necessary to estimate the supplies controlled by individual growers or handlers.

In industries where regulation by grades and sizes is established, there must be estimates of the available supplies by grades and sizes which, furthermore, may have to be made by districts. The crop-reporting facilities of the Agricultural Marketing Service are very helpful in forecasting the total season supplies. The method employed in forecasting, however, does not lend itself to estimating crops by districts, or to providing estimates of the grade and size composition of the crop.

MUST INSURE EQUITABLE TREATMENT

Experience with regulation provisions in marketing agreement programs indicates that more and more emphasis is being placed upon equitable treatment of growers and handlers under regulations which govern shipments. Equitable proration among handlers and growers under volume regulation implies that each handler be given opportunity to ship, during the period of regulation, the same proportion of his total supplies available for shipment during that period as any other handler, and that each grower be given the same opportunity to market his crop as any other grower. Growers are considered to have equitably participated in grade and size regulation

when the proportion of their crop available and intended for shipment which is permitted to be shipped is equal to the average proportion permitted to be shipped in the district in which the growers are located. These definitions indicate the importance of adequate crop-reporting facilities as previously discussed. In addition, these definitions presuppose that the right which is given each shipper to move fruit is related to the total quantity of fruit which he could ship in the absence of regulation.

ALLOTMENTS TO HANDLERS

Considerations relating to the provision of equitable allotments among growers and handlers under volume regulation reveal that allotments should be based upon the control of the commodity currently held by the individuals to whom allotments are given. The issuance of allotments to shippers of citrus fruits last season under the marketing agreement programs varied in form in the different producing areas because of the different institutional framework in the areas. In the California-Arizona area, nearly 90 percent of the fruit shipped to market was controlled by cooperative marketing organizations. In Texas, on the other hand, cooperative organizations controlled nearly 40 percent of the fruit shipped to market. In California-Arizona, each shipper was allotted each week the proportion of the weekly allotments that the total quantity of merchantable fruit he controlled for the season was to the total quantity of merchantable fruit estimated to be available during the season. Independent shippers, under this formula, were obliged to obtain control of all the fruit they intended to ship during the season at the start of the season if they were to receive their equitable share of allotments for their season shipments.

Under an allotment formula of this nature, the assumption is implied that the shipping pattern of each shipper is identical with that of every other shipper. Roughly speaking, this formula has been successfully operated under the California-Arizona citrus marketing agreement program due in large measure, however, to good administration which, in addition to having consistently provided adequate crop estimates, has been able to provide a degree of flexibility in applying the formula so as to take care of shippers to whom this formula did not apply.

EXPERIENCE IN TEXAS

This type of formula, however, was not applied in Texas because of the fact that around 60 percent of the fruit was shipped through individual operators, a large portion of whom purchased fruit throughout the season and hence did not have control of the fruit until a short time before it was shipped. In order to meet this problem, an allotment formula was provided under which shippers who had control of the fruit were given allotments aggregating the same percentage of the total allotments for the given period as the quantity of fruit which they had under control was of the total crop yet to be shipped. Shippers having control of fruit shared these allotments on the basis of their proportionate share of the fruit under control, while the residual amount was allotted to shippers

who did not elect to receive allotments on the basis of fruit they control. These shippers received their allotments on the basis of their performance during the 1937-38 season.

It is immediately apparent that a proration formula similar to that established in Texas in 1938-39 must be accompanied by accurate knowledge of the volume of the crop yet to be shipped and accurate knowledge of the quantity of the crop controlled by shippers who elect to receive allotments on the basis of the fruit they control. Examination of performance in Texas during the 8 weeks of the 1938-39 season in which volume regulation for grapefruit was in effect indicates reasonable success in maintaining shipper and grower equity, due largely to conscientious efforts on the part of the administrative committee to maintain accurate estimates.

CURRENT CONTROL BASIS FOR ALLOTMENTS

Careful consideration indicates that current control is the most feasible basis for a proration formula under volume regulation. This is particularly true in the event that regulation is designed to effect elimination of some of the crop, for under a dual-base system there would be no accurate check upon operations of an independent shipper who received his allotment on the basis of his past performance. Handlers receiving allotments on this basis need only purchase volumes sufficient to fulfill allotments which have been issued to them, which practices would obviously result in discrimination among growers.

The solution indicated is that of compelling all shippers to contract for tonnage at the beginning of the season and issuing allotments to them on the basis of the volume of the fruit which they control for shipment. This implies a rather advanced phase of cooperative marketing and one which has been achieved in only one industry thus far, namely, the California-Arizona orange industry. This raises the problem of whether the Department should attempt to force this condition upon growers and shippers in the event they indicate their desire to effect volume regulation, or whether the Department should wait until such a condition exists in an industry before volume regulation is permitted to be established. So far, the latter course has been followed.

The problems accompanying equitable allocation of allotments to shippers and growers under volume regulation have been illustrated briefly for citrus fruits since the problem of grower and shipper equity is more vital to regulation in the case of these commodities than in the case of others for which volume regulation was established last year. The problem of equity in the case of walnuts is relatively simple in view of the fact that walnuts are not perishable and must be processed before they are shipped to commercial channels. Allocations to Pacific coast hop growers were made on the basis of estimates of the total crop of each grower.

EQUITY UNDER GRADE AND SIZE REGULATION

The problem of equity among growers in the case of grade and size regulations has been given less consideration than in the case of volume regulation in view of the fact that most of the grade and

size regulations established under the marketing-agreement programs approached stop-loss regulations. It had been determined that shipments of the prohibited grades and sizes would not have returned growers direct harvesting and marketing charges had they been shipped to domestic commercial channels.

With regulations of this nature, it is apparent that the problem of grower equity is not of extreme importance with reference to all growers. Size regulations, however, usually result in appreciable improvement in prices for the restricted sizes, making the shipment of them attractive to the individual grower. Where the crop of an individual grower contains a larger proportion of the restricted sizes than the crops of other growers in his district, he can claim exemption and ship some of the restricted sizes. The problem of equity under grade and size regulations is important in the case of some individual growers, therefore, and safeguards are taken to protect the interests of these individuals.

ROLE OF ADMINISTRATIVE COMMITTEES

The successful operation of a marketing-agreement program depends in no small measure upon the proper functioning of the administrative organization established by the industry. It is essential that the grower and shipper committees be acquainted with data relating to the current position of the industry at all times in order to make proper recommendations to the Secretary for regulations which are to govern shipments.

If volume regulation is established, it is necessary to have data relating to performance of each handler in order to provide for flexible operation of the allotment formula, for any formula in itself is too rigorous for practical use. For grade and size regulation, the committees must have records of the grade and size composition of the crop, by districts. Current data relating to market performance, price behavior, and factors affecting marketing conditions are of course necessary prerequisites for successful performance by the industry committees in administering marketing-agreement programs. The smooth functioning of an administrative organization facilitates transmission of information and recommendations to the Secretary, thereby expediting the issuance of the regulations. In addition, an administrative agency performs the function of acquainting growers and shippers with operations under the program.

GROWER AND HANDLER RESPONSIBILITIES

In summary, it may be stated that regulation of shipments under marketing-agreement programs cannot be established effectively in agricultural industries until there is recognition by growers and handlers of their responsibilities under regulation and thorough understanding of the types of regulation involved. Furthermore, it is essential that adequate crop-reporting facilities are available to provide estimates of the crop necessary to enable successful operation of regulation orders. In addition, the marketing institutions and grower-handler relationships must be such that grower and handler equity will be insured under regulation. Finally, there must be in existence

an efficient administrative organization to facilitate industry performance under regulation.

Experience with regulation reveals that these conditions must be fulfilled before a marketing-agreement program can operate successfully, and that no compromise can be made with these requirements. In the past, some attempts have been made to establish regulation programs where these conditions have not been met. These resulted in unsatisfactory performance—particularly with respect to the maintenance of equity among handlers and growers. It has been recognized, therefore, that a marketing-agreement program requires the existence of these conditions in an industry before it can be effectively established. It is a corollary that regulation programs cannot be adjusted to perform adequately in the absence of these conditions—rather, conditions in the industry must be adjusted to make possible effective regulation under a marketing-agreement program.

BASIS FOR SURPLUS REMOVAL PROGRAMS

While marketing-agreement programs and other similar cooperative industry measures are helping farmers establish more orderly selling conditions for their products, they do not provide the broad and flexible machinery necessary for dealing most effectively with those agricultural problems which arise from reduced consumer buying power, restricted export markets, and the existence of farm surpluses. This additional need is being met by the so-called surplus-removal programs which more properly may be termed programs for encouraging increased consumption and wider market outlets for agricultural commodities.

WHAT THE PROGRAMS DO

During the last fiscal year, the surplus-removal programs played an important role in supplementing the efforts of farmers under the various other phases of the national farm program. These activities helped producers maintain both their incomes and their markets, and, in addition, they made available large supplies of commodities for the use of millions of consumers who lacked adequate buying power. This was accomplished through three principal types of programs: (1) Programs to encourage increased domestic distribution and consumption; (2) programs to divert supplies of commodities from normal trade channels to byproduct uses, and to encourage new uses; and (3) export programs designed primarily to help United States producers maintain their fair share of the world markets for certain agricultural commodities.

LEGAL AUTHORIZATION

Authority for carrying out these activities is provided by section 32 of Public, No. 320, enacted in 1935 and subsequently amended. This legislation makes available to the Secretary of Agriculture an amount equal to 30 percent of annual customs receipts, which may be expended for any of the authorized purposes.

While this and related legislation provide agriculture with additional machinery to deal more effectively with certain phases of the

farm surplus problem on a more or less permanent basis, the legislation is not without precedent. Congress had previously recognized the desirability of making use of supplies of farm products which had accumulated, with ruinous effects on farmers, because of decreased domestic buying power and declining foreign markets. In 1932 and in 1933, for example, Congress directed that portions of the large supplies of Government-held wheat and cotton be made available to the Red Cross for distribution to the needy and distressed. The Agricultural Adjustment Act of 1933 included broad authority for surplus removal and market expansion operations. Legislation in 1934 gave specific authorization for programs of this type for the dairy and beef cattle industries, and provided for the distribution of the livestock products for relief purposes.

CONTINUING POLICY

Through the enactment of section 32, Congress indicated a continuing policy directed at finding ways of encouraging consumption and utilizing farm products so as to avoid ruinous agricultural conditions. Subsequent amendments to this section have defined further the authority of the Secretary of Agriculture and stipulated that funds could be transferred by the Secretary from section 32 to the Federal Surplus Commodities Corporation to be used for the purchase of commodities to be donated for relief purposes. A further amendment, enacted toward the end of the last fiscal year, authorized the encouragement of increased domestic consumption among low-income groups and provided for a somewhat broader means of increasing the use of agricultural commodities through indemnity or other payments. At the same time, Congress appropriated \$113,000,000 for use in addition to section 32 funds for the 1940 fiscal year.

OBJECTIVES OF THE PROGRAMS

Programs designed to encourage direct increases in the consumption of agricultural commodities operated during the year for nearly 40 different farm products. These activities were carried out (1) by purchasing surplus farm products for distribution to needy families through State welfare agencies, (2) by making available surpluses for use in school lunches, and (3) by the inauguration of the surplus food order stamp plan.

While encouraging consumption of agricultural commodities, the programs sought to relieve growers who were suffering from the price-depressing effects of various types of surplus conditions. In some instances, the surpluses were temporary and local, caused by the lack of a sufficient number of buyers in commercially important producing areas. In other cases, the surpluses were seasonal, arising out of unusual weather conditions which caused the marketing seasons of normally noncompetitive areas to overlap, or because of highly favorable production conditions which sharply increased market supplies. Still other surpluses were due to shifts in domestic consumer demand or loss of foreign markets which required the producers concerned to readjust their operations. Purchases of surpluses in such instances sought to facilitate the readjustment which these producers were to undertake.

PREVENTING WASTE

Through programs for increasing consumption, an effort is made to prevent the physical and economic wastes that take place when producers of perishable commodities are forced to market all of their supplies in a very short time, or when unusually heavy supplies of semiperishable commodities carried over from previous seasons cause large quantities of a crop to go unharvested. At the same time that marketing conditions are improved for farmers, the programs make available large quantities of health-giving foodstuffs for the use of millions of needy low-income families who lack adequate buying power.

HOW PURCHASES ARE MADE

A surplus agricultural commodity is bought by the Federal Surplus Commodities Corporation at the direction of the Secretary of Agriculture, following determination that a surplus condition exists and that a purchase program will aid in correcting the situation. Following a request for assistance from producers, an investigation is made by the Division of Marketing and Marketing Agreements to determine the relative situation of producers of the commodity involved as compared with the situation in previous marketing seasons. It must be clearly shown, by a comparison of the volume of available supplies with the quantities normally marketed, that supplies are large and burdensome and that prices received by producers compare unfavorably with those of recent seasons or with prices during a given reference period. If the results of the investigation show that a purchase program is necessary, a recommendation is made to the Secretary. The recommendation contains information showing the extent of the surplus in the specific commodity; the grade, size, and quality composition of the supply; and the area or areas in which the surplus exists. It also suggests the maximum prices to be paid and the maximum quantities to be purchased. If the Secretary determines that the recommended purchase program is justified, the Corporation is authorized to carry out the program in accordance with his directions.

AIMS IN BUYING SURPLUSES

Certain objectives govern the operation of a purchase program. The primary aim is to improve returns to producers for their entire crop, rather than to improve returns only to the extent of the buying operations. By removing that portion of the supply which most seriously depresses the market, the Corporation endeavors to make possible maximum commercial utilization of the crop. The amount which is bought through a surplus removal program usually represents a very small part of the total production, or available supply, of the commodity. For the most part, it is between 1 and 5 percent of the total; occasionally higher. In some instances, however, merely an announcement of the intention to buy brings about an immediate improvement in the market situation.

TABLE 3.—*Purchases and expenditures by the Federal Surplus Commodities Corporation by commodities, for the fiscal year ended July 30, 1939*¹

Commodity	Unit	Quantity purchased	Total cost
	1	2	3
Apples, fresh.....	Bushels.....	555, 584	\$596, 604
Beans, dry.....	Pounds.....	76, 409, 500	2, 090, 313
Beans, green.....	Bushels.....	33, 620	17, 854
Beets.....	Bushels.....	322, 339	135, 467
Blackberries, canned.....	Cases.....	76, 960	134, 600
Butter.....	Pounds.....	122, 286, 750	34, 704, 169
Cabbage.....	Pounds.....	118, 962, 085	1, 102, 370
Carrots.....	Bushels.....	152, 102	72, 269
Cauliflower.....	Crates.....	21, 448	17, 968
Celery.....	Crates.....	30, 837	44, 242
Corn, fresh.....	Bushels.....	17, 730	4, 606
Corn meal.....	Barrels.....	859, 918	2, 809, 601
Cotton, raw baled.....	Bales.....	29, 190	1, 024, 418
Cotton containers.....	Number.....	197, 095	17, 650
Cotton ticking.....	Yards.....	3, 798, 441	328, 409
Eggs, shell.....	Cases.....	107, 697	532, 134
Grapefruit.....	Boxes.....	1, 954, 533	2, 100, 333
Mesh bags.....	Number.....	649, 870	62, 625
Grapefruit juice.....	Cases.....	2, 419, 029	2, 966, 999
Milk, dry skim.....	Pounds.....	13, 997, 211	706, 931
Paper bags.....	Number.....	13, 156, 975	92, 964
Milk, evaporated.....	Cases.....	73, 600	172, 147
Milk, fluid.....	Quarts.....	61, 265, 821	3, 349, 251
Onions.....	Bushels.....	232, 785	168, 176
Oranges.....	Boxes.....	1, 834, 279	2, 937, 792
Mesh bags.....	Number.....	460, 000	41, 958
Peaches, dried.....	Pounds.....	10, 480, 954	772, 500
Peaches, fresh.....	Bushels.....	5, 959	6, 924
Pears, fresh.....	Boxes.....	295, 299	400, 552
Peas, fresh.....	Bushels.....	2, 598	2, 808
Plums, fresh.....	Boxes.....	32, 355	25, 269
Potatoes, sweet.....	Bushels.....	378, 088	193, 073
Potatoes, white.....	Bushels.....	2, 264, 499	1, 417, 929
Prunes, fresh.....	Bushels.....	13, 743	21, 927
Raisins.....	Pounds.....	20, 199, 000	946, 814
Rice.....	Pounds.....	12, 758, 000	383, 049
Syrup, cane.....	Cases.....	36, 784	88, 182
Tomatoes, canned.....	Cases.....	66, 701	88, 949
Tomatoes, fresh.....	Bushels.....	109, 237	73, 327
Wheat cereal.....	Barrels.....	340, 015	1, 200, 573
Graham flour.....	Barrels.....	314, 996	1, 110, 585
White flour.....	Barrels.....	908, 299	3, 603, 552
Total.....			66, 567, 863

¹ Includes transportation, processing, and other handling costs which are subject to some revision. A portion of these costs represent encumbrances for transportation and processing of commodities purchased in the current fiscal year that will be paid in the 1940 fiscal year.

A constant effort is made to see that benefits from purchase programs are not confined to a small number of producers, but that they aid the entire group marketing the commodity. Purchases ordinarily are made in areas producing quantities which are large enough to affect marketing conditions and prices. If this presents practical administrative difficulties, as with butter and eggs, the purchases are made in central markets having national price-determining effects, in order that the benefits of the buying operation may be reflected to the largest possible number of producers who market the commodity.

INDUSTRY COOPERATION

In developing and operating a purchase program, great care must be taken to avoid encouraging uneconomic production. Consequently, the general policy has been to adhere to commercial standards. In most instances, doing otherwise would permit the purchase operations to encourage inefficiencies and unwise expansion of production.

The purchase programs assist industry groups in recognizing the advantages of cooperative action in meeting their marketing problems. The experience of industry advisory committees of growers and handlers in connection with these activities has encouraged growers to continue their efforts toward cooperative action and to formulate marketing agreement or other industry programs designed to bring about more orderly selling conditions for their commodities.

PRODUCTS FOR RELIEF USE

In carrying out the provisions of the authorizing legislation, the commodities bought through the purchase programs are made available to State welfare agencies, which maintain a commodity distribution system in each State. The distribution of these products by the State welfare agencies to those on relief is guided by general regulations issued by the Corporation. Under these regulations, only persons who have been certified to be in need of public assistance are entitled to receive surplus commodities. Surplus commodities are given in addition to any other form of aid so as to bring about a net increase in consumption. The regulations prevent the distribution of commodities in excess of set maximum rates. These maximum rates of distribution have been developed with the cooperation of the Bureau of Home Economics, and seek to supply the difference between what a needy family is able to buy, and what it should have to satisfy its diet needs.

VOLUME DISTRIBUTED

During the fiscal year, the Corporation made available to State welfare agencies over 1,970,000,000 pounds of foodstuffs at a total cost slightly in excess of \$66,500,000. These agencies distributed commodities to more than 10,500,000 people. The bulk of this distribution was to needy families on relief whose normal relief grants were insufficient to provide an adequate diet. Besides the States and the District of Columbia, commodities were distributed in Puerto Rico and the Virgin Islands.

Distribution varied widely from month to month, depending on supplies available and case loads in the various States. In July 1938, 115,000,000 pounds of foodstuffs were distributed, while in October 1938, 209,000,000 pounds were distributed. The average distribution during each month was 164,200,000 pounds.

THE SCHOOL LUNCH PROGRAM

One of the most important features of the direct purchase and distribution operations carried out last year was the national school lunch program, which made use of nearly 30,000,000 pounds of the surplus commodities. Under this program, a monthly average of more than 500,000 underprivileged school children in an average of 8,632 schools were served free lunches which were partly or wholly made of the surplus farm products. The program expanded rapidly from the beginning of the school year, and at the peak, lunches were being served in 14,000 schools to more than 800,000 children. Schools in every State, as well as in the District of Columbia, Puerto Rico, and the Virgin Islands, participated.

SOME RESULTS

The school lunch program is a joint project, carried out in cooperation with the Works Progress Administration and local educational, civic, and welfare agencies. All lunches made in whole or in part from surplus commodities are served free.

Records kept in connection with the operation of the program in various schools reveal significant results. Outstanding was the fact that children receiving the lunches showed material gains in weight. In addition, they were absent from school less frequently and had fewer illnesses than before the lunches started.

Definite expansion of the school lunch program was started during the latter part of the fiscal year. It was hoped that the program would be serving 5,000,000 undernourished children by the end of the 1939-40 school year. Such expansion would not only provide health-building lunches for millions of needy children, but would also provide additional outlets for agricultural commodities.

THE FOOD STAMP PLAN

In March 1939, the Secretary of Agriculture announced that the Federal Surplus Commodities Corporation would undertake, on an experimental basis, a new plan for distribution of surplus commodities to needy and undernourished persons. This program, known as the food stamp plan, continued the policy of expanding the domestic market for agricultural commodities by making surplus food products available to families eligible for public aid. As distinguished from the method used in the direct distribution of surplus commodities, however, the food stamp plan utilizes the normal channels of trade.

The program was begun on an experimental basis and the first city selected was Rochester, N. Y., where operations started in May 1939. In June, it was placed in effect in Dayton, Ohio, and plans were made for extension in July to Seattle, Wash.; Birmingham, Ala.; Des Moines, Iowa; and Pottawatomie County, Okla.

HOW THE PLAN OPERATES

The mechanism for utilizing the normal channels of trade in bringing about the increased consumption of surplus food involves the use of food stamps.

In order to get a broad experience record in this new approach, various methods of operation were tried. Basically, however, they all adhered to the same general pattern.

Because the best available figures indicate that persons getting public assistance spend an average of about \$1 a week per person for food, safeguards are provided in the plan to insure the continued expenditure of that amount by those eligible persons who participate. Any food, therefore, that is made available to the relief families in addition to what they are already able to get represents a net increase in their consumption. The safeguards are in the form of 25-cent orange-colored stamps. Relief families participating in the plan may, on an entirely voluntary basis, purchase orange-colored stamps at the rate of \$1 a week for each member of the family as a minimum, or at the rate of \$1.50 a week for each member of the

family as a maximum. For each dollar's worth of orange-colored stamps purchased, 50 cents worth of blue surplus stamps, each worth 25 cents, are given free to the family.

Both types of stamps can be used for food in any grocery store in the area in which the plan is operating. The orange-colored stamps can be used for any food usually purchased in grocery stores and also for such items as soap and starch, but cannot be used for tobacco or alcoholic beverages. The blue surplus food stamps can be used only for those food products declared by the Secretary of Agriculture to be in surplus and which are listed on the surplus commodity bulletin currently in effect.

INCREASES BUYING POWER

The blue surplus stamps represent a 50-percent increase in food purchases by relief families. They mean that each member of the family can spend at least \$1.50 for food, instead of the \$1 which was being spent in most instances before food stamps were available.

This, in essence, is the detail of how the program works, although, of course, there are variations which give the necessary flexibility to meet different local conditions. Thus, in areas where food vouchers were issued to relief cases, no orange stamp purchases were required in order to secure blue stamps, since the food vouchers already covered regular food expenditures. In areas where very little cash relief was granted, blue stamps were issued without any orange stamp purchases. Grocers paste \$5 worth of stamps on cards, and deposit them at their banks, which, in turn, receive payment from the Federal Government.

OPERATING HIGHLIGHTS

The food stamp plan continued as an experiment during the remainder of the fiscal year. While a complete analysis of the food stamp plan will require a considerably longer period of operation, initial studies brought out the following facts:

1. Participation of eligible persons, which is on a voluntary basis, increased steadily from the inception of the program.

2. Eligible persons apparently like getting surplus commodities through regular grocery stores. They have experienced little, if any, difficulty in shopping with the stamps. They have bought in quantities to meet their immediate needs, and have expressed satisfaction with being able to select the commodities they want from among the surplus products on the list.

3. Needy persons who have participated in the plan are getting not only a more adequate diet, but, apparently in most cases, a better balanced diet.

4. The increased volume of trade in grocery stores, occasioned by the food stamp plan, has had a stimulating effect on many other businesses in the community.

5. Food sales in Rochester have increased beyond the amount represented by blue-stamp purchases. Aggressive merchandising, advertising, and sales campaigns, as well as special displays, have contributed to this result. The entire food industry has worked together to bring about this broader market for farmers with surpluses to sell.

6. In all instances merchants participating in the plan have received payment for their stamps from the Treasury Department within a few days from the date of acceptance. Banks have cooperated in the redemption of the stamps, as a service for both depositors and nondepositors.

7. Local governmental and public welfare officials have done effective jobs in helping to put the plan into operation, and in assisting in its administration.

8. There have been very few reported violations of the regulations concerning use of the stamps. These cases are either now being investigated or have

already been investigated and appear to have been the result of misunderstanding.

9. The food stamp plan may well develop into an extremely effective national program through which to move surpluses of those agricultural products for which there is an elastic demand.

Studies of the operation of the plan will continue with special emphasis by the Bureau of Home Economics on the dietary effect of the program on families receiving public assistance, and special emphasis by economists of the Corporation on the agricultural significance of the operation of the plan.

OTHER PROGRAMS FOR SURPLUSES

In carrying out programs which deal with agricultural surpluses, there is need for wide flexibility in operations. The market situation and the organization of the industry are different for each commodity. These have to be taken into consideration in each program. The numerous ways in which the operating objectives are carried out are best illustrated by examining in detail some of the principal programs.

PROGRAMS FOR DAIRY PRODUCTS

After a 4-year period of moderate dairy production, improving consumer demand and upward trend in dairymen's incomes, dairy farmers were confronted with a combination of adverse conditions at the beginning of the 1938-39 season. The general business recession had resulted in a decrease in consumer income and buying power. Dairy production recently had shown a marked increase.

During the 1938-39 May-April season, consumer-demand conditions showed only slight improvement. With good pastures, large supplies of other feeds and some increase in milk-cow numbers, dairy production was the largest on record. Production of the principal manufactured dairy products as a group was nearly 10 percent greater than the average production of the preceding five seasons. The farm price of butterfat averaged 24.3 cents per pound, or 73 percent of the parity price.

PURCHASES EXPANDED

To help maintain the incomes of dairy farmers, by diverting part of the price-depressing surpluses of dairy products to relief uses and encouraging a reasonable degree of market stability, the relief purchase programs were expanded and supplemented by a butter-loan program. The operation of the programs was based upon careful consideration of the current and prospective developments during the season in production and supplies, consumer-demand conditions, seasonal and average level of prices, funds available for the programs, and the needs for relief purposes.

The quantities of products removed from the markets under the programs were equivalent to about 6 percent of the total supply of the principal manufactured dairy products as a group, or about two-thirds of the quantity by which the total 1938-39 supply exceeded the average supply in the preceding five seasons. The total 1938-39 supply could have been marketed in regular consumer channels only at a substan-

tially lower average level of prices. The actual level of prices was reasonable from the standpoint of consumers, and consumption of those products in regular trade channels totaled about 4 percent greater than the average consumption in the preceding five seasons. Meanwhile, millions of unemployed and other needy families were greatly benefited by the distribution of surplus products to those on relief and without means of buying such products in the markets.

1938-39 PROGRAM FOR BUTTER

The 1938-39 butter stabilization program represented the first application to dairy products of section 302 (a) of the Agricultural Adjustment Act of 1938, which authorizes Commodity Credit Corporation loans on agricultural commodities under terms and conditions determined by the Secretary of Agriculture and approved by the President. In general, it is impracticable for individual farmers to store their dairy products in order to obtain Government loans on them, as is done in the case of some of the other major crops. However, farm prices of milk and butterfat are based largely upon market prices of dairy products, particularly butter. Accordingly, farmers in general are directly benefited by programs involving purchases of butter in the markets at the basic loan rates and storage under loans.

An agency was needed to help operate the butter-loan program. For this purpose the Dairy Products Marketing Association was organized with a membership of eight regional cooperative marketing organizations engaged principally in the marketing of the butter of many local producer-cooperatives. This was in accordance with the policy of encouraging producers and their representatives to help formulate and operate the agricultural programs. The Dairy Products Marketing Association is a nonprofit, non-capital-stock organization, and its articles of incorporation specify that no funds involved in the program may be distributed to its members as profits or dividends.

FEATURES OF THE PROGRAM

The 1938-39 butter-loan program contained the following provisions:

- (1) Commodity Credit Corporation loans to the Dairy Products Marketing Association of up to \$33,375,000 for the purchase and storage of up to 115,000,000 pounds of butter, such purchases to be made at prices equal to the basic loan rates;
- (2) Loan rates as determined by the Secretary of Agriculture of not to exceed 75 percent of the parity price plus subsequent loan advances for storage and operating costs;
- (3) Notes of the Dairy Products Marketing Association, secured by warehouse receipts representing the butter, as collateral for the loans;
- (4) Provision that the butter would be available for resale to the commercial trade, but only at prices representing a reasonable seasonal increase, and in no event at less than the purchase prices and all storage and operating costs;
- (5) Provision that the butter might be resold to the Federal Surplus Commodities Corporation for relief distribution; and
- (6) Provision that, if the sales proceeds exceeded the amount needed to repay the loans and for operating costs, such excess funds would constitute a reserve to be used for future operations or turned over to the Federal Surplus Commodities Corporation in the form of dairy products for relief distribution.

HELPED MARKET SITUATION

The program represented a means of discouraging a decline in prices, during the summer pasture period of large farm production, to unduly low levels in relation to the prospective supply, demand, and price conditions for the storage season as a whole. The resale provisions represented an assurance to producers and to those in the trade who stored butter that the stocks held under loans would not interfere with a reasonable seasonal price increase. At the same time, they represented an assurance to consumers in regular trade channels of an adequate reserve supply at reasonable prices if production fell off to less than usual during the winter.

Under the 1938-39 program, the Dairy Products Marketing Association began purchasing butter in mid-June and, mostly during July, August, and September, purchased 114,137,000 pounds of 89- to 92-score butter. Most of this butter was purchased on the basis of 25.5 cents per pound for 92-score butter at Chicago, with the usual price differentials for other grades and markets. The butter was purchased largely on the New York, Chicago, and Pacific coast mercantile exchanges, although some open-market purchases of car-lots of butter in storage were made in the central markets, as well as at various other points, on the basis of the central market prices less freight. With record levels of dairy production, commercial supplies continued large and prices showed little seasonal rise. In September 1938 the Dairy Products Marketing Association began selling the butter to the Federal Surplus Commodities Corporation for relief distribution, applying the sales proceeds on the loans. By the end of the fiscal year, such sales had totaled slightly over 96,000,000 pounds. The 1938-39 loan program involved loans totaling approximately \$31,500,000. The outstanding balance of the loan at the end of the fiscal year was a little over \$5,500,000 on slightly under 18,000,000 pounds of butter.

DIRECT PURCHASE ACTIVITIES

During the year, the Federal Surplus Commodities Corporation purchased for relief distribution 122,000,000 pounds of butter, about 3,000,000 pounds of evaporated milk (excluding 19,000,000 pounds acquired in exchange for fluid milk purchased under the New York diversion program), 14,000,000 pounds of dried skim milk, and 134,000,000 pounds of fluid milk, at a total expenditure, excluding administrative costs, of over \$35,000,000 of the funds made available by section 32.

The Federal Surplus Commodities Corporation purchases included 96,000,000 pounds of butter bought from Dairy Products Marketing Association and 26,000,000 pounds purchased in the markets during the winter. These Federal Surplus Commodities Corporation market purchases also were made on the basis of 25.5 cents per pound for 92-score butter at Chicago.

With commercial storage stocks of butter reduced to about the usual small volume for that part of the season, and in view of the limited funds available for the relief purchase programs, the Federal Surplus Commodities Corporation purchases in the markets were suspended on March 8, 1939, pending more definite indications of prospective supply and demand conditions in the coming season. While no further purchases of butter were made in the markets during the remainder of

the fiscal year, the Federal Surplus Commodities Corporation continued to take over butter from Dairy Products Marketing Association for relief distribution. The rate of relief distribution of butter was increased during the fall months of 1938 to about 12,000,000 pounds per month.

BUTTER AND OTHER MILK PRODUCTS

Careful attention was given to the advisability of purchasing cheese and evaporated milk for relief distribution during the 1938-39 season. In midsummer 1938, when supplies of all dairy products were extremely large, cheese prices temporarily were somewhat low relative to butter prices, and numerous requests were received for relief purchases of cheese. However, it was important from the standpoint of the whole dairy situation that provision be made for taking over for relief purposes the butter being placed under loans. Since a curtailment of the butter stabilization activities and a decline in butter prices undoubtedly would be accompanied by further declines in prices of other dairy products, it appeared inadvisable at that time to shift the use of the limited funds available for relief purchases.

Cheese prices increased in September, and during the remainder of the season were fully in line with butter prices. Evaporated milk prices were fully in line with, or relatively higher than, butter prices throughout the season. With a large quantity of butter on hand for relief distribution at the beginning of the 1939-40 season, consideration was given to the possibility of further relieving the general dairy surplus situation by diverting some cheese and evaporated milk to relief outlets, provided this could be accomplished at an expenditure about equal to the cost that would be involved in purchasing an equivalent volume of butter in the markets. In response to invitations sent to manufacturers, offers were received by the Federal Surplus Commodities Corporation in June 1939. The prices in the offers of cheese were relatively higher than prices of other dairy products and none of them were accepted. However, 3,262,500 pounds of evaporated milk were bought.

Dried skim milk supplies were large and prices extremely low last season. During the fiscal year, Federal Surplus Commodities Corporation purchased nearly 14,000,000 pounds. Relief distribution of this product in recent years not only has provided needy families with an important food from the dietary standpoint, but also has tended to introduce the product for home use and to develop a potential demand for it. Dried skim milk production and supplies have decreased in recent months and prices have improved considerably.

Butter has been designated as a surplus commodity under the food stamp plan. Preliminary results in the few cities where the plan has been operating have indicated that a substantial proportion of the surplus food stamps have been used by relief families for purchases of butter. Expansion of the plan may result in the purchase of a substantial quantity of surplus butter through regular trade channels by relief families receiving the stamps during the 1940 fiscal year.

DAIRY PRODUCTS PURCHASE METHODS

Under the programs, the purchases of dairy products surpluses have been made in such form and by such methods as promised the

maximum immediate effect on returns to producers of milk and butterfat in general. The market for manufactured dairy products, to a large extent, is Nation-wide, and there are rather high degrees of interproduct and interregional supply and price relationships. Over a period of time purchases of one product tend to affect the supplies and prices of all dairy products. In general, it has appeared advisable to operate the programs so that the maximum quantities of surpluses in terms of milk equivalent would be removed with a given expenditure. Other important considerations have been the prevailing trading practices, the importance of quick action, and of immediate effects of the purchase activities on returns to producers, and the administrative costs.

For several reasons, the surpluses removed under the programs have been largely in the form of butter, which, in terms of quantity of milk used, is the leading manufactured dairy product. Farm prices of butterfat and milk used for dairy products are based largely on market quotations for butter. Purchases of butter may be readily made on a daily basis, with the benefits immediately reflected in returns to producers. Furthermore, variations in butter prices are likely to be accompanied by corresponding variations in prices of other dairy products. The removal of surpluses in the form of butter tends to relieve the pressure of large milk production on supplies and prices of other dairy products. However, supplementary purchases of other dairy products have been advisable at times when the supplies and prices of those products have been considerably out of line with butter supplies and prices.

THROUGH EXCHANGES

The rules of the mercantile exchanges provide that transactions may be made on the exchanges only by its members. They also require payment of specified commissions and certain other fees. Federal Surplus Commodities Corporation purchases of butter in the exchanges have been made through cooperative-marketing associations who are members of the exchanges, the cooperatives making the purchases for Federal Surplus Commodities Corporation under purchasing agreements and in accordance with daily directions. In using the services of the cooperatives, it has been felt that, if the commissions and fees exceeded the actual costs incurred by the cooperatives in performing the services, such excess would go to producers. This would be consistent with the primary purposes of the programs.

OFFERS OR BIDS

In recent years, purchases of cheese, evaporated milk, and dry skim milk have been made on the basis of offers or bids submitted by manufacturers and handlers in response to distributed announcements that offers or bids would be considered. While this method generally requires more time than the exchange purchase method, quick action usually is not so important in purchasing those products as in purchasing butter. The offer or bid method has the advantage of making possible purchases of the products in the producing areas for direct shipment to the points of relief distribution. This method also makes it possible for manufacturers to offer surplus stocks to

Federal Surplus Commodities Corporation at prices below the prevailing market prices, thus assisting the diversion to relief outlets of relatively large quantities of surpluses with the available funds. This has been accomplished under the evaporated milk and dry skim milk purchase programs.

In carrying out the surplus removal programs for dairy products, the objective is to buy in such a manner as to get the greatest effect for every dollar spent. Experience has shown that this can best be accomplished through concentrating buying operations on butter. However, from the general industry standpoint and from the broader objective of encouraging consumption of dairy products, it is necessary to supplement butter buying operations with purchases of other dairy products. In this way it is possible to maintain a better balance within the industry and, at the same time, distribute for relief use various kinds of dairy products.

RELIEF MILK DISTRIBUTION PROGRAMS

Until recently, only manufactured dairy products such as butter, evaporated milk, dry skim milk, and cheese were bought under surplus removal programs. Late in 1937, however, a program involving the purchase of fluid milk for relief distribution to supplement operations under the marketing order for the Boston milk market was inaugurated. This program has been in effect since that time. The successful operation of the program has depended upon the cooperation of producers, handlers, and municipal authorities.

At the time the program was inaugurated, data showed that there was an outlet in the Boston area which, if reached, could increase fluid milk sales substantially. Such a program, it was felt, would serve definite purposes. In the first place, it would bring into use at higher returns substantial quantities of milk which producers had been selling for cream and manufactured purposes with lower returns. In the second place, the operation of such a program would make available additional supplies of milk to many needy families, and quantities of milk to other needy families who were unable to get any milk because of their inability to buy. And, of course, from the standpoint of the handlers, the operation of the program would mean a larger volume of milk running through their plants.

OPERATIONS IN NEW ENGLAND

Under the program operations, starting in October 1937, milk was bought and donated to the welfare agencies in the Boston area and in Manchester, N. H. During the year, over 62,000,000 pounds of milk were made available under this program, bringing the total amount distributed to over 89,000,000 pounds.

The Federal Surplus Commodities Corporation conducted the purchasing operations involved in the program. Handlers and associations of producers desiring to sell milk to the Corporation were required to submit offers for this purpose. Acceptance of these offers, specifying the terms upon which supplies were offered, constituted the contractual arrangement under which milk was obtained. Prices paid by the Corporation for milk purchases were the class 1 prices established by the Federal order regulating the handling of milk in

the Boston marketing area. Contracts with sellers called for the delivery of milk containing not less than 3.7 percent of butterfat. All milk was purchased in bulk.

Milk purchased under the program had to conform to the sanitary and health regulations which are applicable to milk which is sold for fluid consumption in the Boston marketing area. In addition to the regular inspection by local authorities to which all milk sold in the Boston area is subject, milk obtained under the program was inspected by agents of the Corporation to determine each supplier's compliance with contract specifications.

Donation of the milk to local relief agencies in the city of Boston and in the surrounding communities constituting the Boston milk marketing area, for distribution to needy families, was effected at the point of purchase. Relief agencies financed the handling and distribution of the milk thereafter, except for such quantities as were distributed to Works Progress Administration families, who were charged two cents per quart to cover the cost of processing. Processing services covering pasteurization, bottling, and delivery to distributing stations were performed by handlers who were complying with the Boston order, among whom the supplies were allocated for this purpose. Processors received from $1\frac{3}{4}$ to 2 cents per quart for these services.

DISTRIBUTION SAFEGUARDS

The bottled milk was distributed to needy families in the Boston milk-marketing area from approximately 100 distributing stations operated by the relief agencies with Works Progress Administration labor. Needy families were furnished milk cards authorizing them to receive their allotment of milk free at these stations. As a condition for this, each recipient was required to sign an affidavit pledging to continue the regular purchases of milk, the amount of which was stated in the affidavit. This was designed to assure that the program would not interfere with regular commercial sales of milk in the area. While toward the close of the fiscal year the distribution of milk averaged 70,000 quarts per day, the peak of distribution was during the last half of December 1938, when it averaged 127,000 quarts per day.

MILK PURCHASES IN THE NEW YORK AREA

During the months of November and December 1938 a fluid milk purchase program was instituted in the New York milk-marketing area, as a result of the large output of milk which occurred at that time. Purchases were made from country plants equipped to handle only fluid milk. Supplies purchased were delivered to manufacturing plants, where they were converted into products which could be utilized for relief distribution. This program supplemented operations under the Federal-State orders regulating the handling of milk in the New York metropolitan marketing area.

Milk from 121 receiving stations was handled in 35 processing plants. The use classification of such diverted milk determined the price paid for the milk, plus 23 cents station handling charge, and plus the hauling charge, dependent upon the proximity of receiving station to the nearest available processing plant under con-

tract. The milk products were distributed in 23 States and the District of Columbia by the Federal Surplus Commodities Corporation. Under this program, also, some fluid milk was distributed to New York schools. The milk was provided in bulk and was served to children of families who were in need of milk to supplement their usual diets.

A little over 72,000,000 pounds of milk were purchased, of which more than 680,000 pounds were distributed to 550 schools in the five boroughs of New York City. The milk bought was produced by dairy farmers in the States of New York, Pennsylvania, and Vermont.

ORANGE AND GRAPEFRUIT PURCHASES

Production of few commodities has changed as rapidly as that of oranges and grapefruit. Practically without exception there has been a large, regular increase in the size of the total crop for market year after year. Since most of the groves are still below their peak bearing capacity, the prospects for increasing production continues. Changes are striking when compared with conditions only a few years ago. The 1938-39 crop of grapefruit was nearly 43,000,000 boxes. This was almost 12,000,000 boxes, or 38 percent, over the 1937-38 crop and 26,200,000 boxes, or 156 percent, over the 1927-36 average. The orange crop, with a yield in the United States of 77,800,000 boxes for 1938-39, was only slightly greater than that of 1937-38, but it was 28,200,000 boxes, or 57 percent, over the 1927-36 average of 49,600,000 boxes.

Even with rising consumer income, the increased supplies to be marketed have depressed prices, and frequently supplies were so great that all of the crop could not be shipped. The bare costs of picking, packing, and shipping could not be obtained for many grades and sizes of fruit.

The industry in Florida, Texas, California, and Arizona sought to improve prices by Federal marketing agreements. At the same time, extensive purchase programs were undertaken both to relieve market pressure, and thus improve prices, and to salvage a part of the supplies that would not have been marketed otherwise.

Grower representatives of the citrus industry met with Department officials in the fall of 1938 to develop a purchase program as a supplement to their own marketing efforts. It was recognized that, even with extensive purchases for relief distribution, supplies, especially of grapefruit, were so great that all of the crop could not be marketed. Diversion of supplies from regular channels of domestic trade into byproducts, such as stock feed, fertilizer, and exports, was suggested and applied by the industry as an accompaniment of the purchase program.

METHOD OF PURCHASE

Each week the Federal Surplus Commodities Corporation offered to buy grapefruit and oranges at prices determined by the commercial market for comparable grades and sizes. Frequently the commercial price for such fruit fell to extremely low levels. Many of the shipments to terminal markets did not return enough to pay hauling, packing, freight, and handling charges. The Federal Surplus Commodities Corporation established minimum levels of prices, at which

it would purchase, which were sometimes, for the reason just given, above the going market.

Orange purchases during the fiscal year included about 796,000 boxes in California and 209,000 boxes in Florida. For most of the Florida season, prices were sufficiently high to permit free movement of practically all of the crop. Consequently, relatively small purchases were made in this State. The California commercial crop was substantially reduced by a severe windstorm in the spring of 1939. While this resulted in somewhat higher Florida prices than might have been expected otherwise, it greatly increased the California marketing problem.

Grapefruit purchases constituted the most substantial undertaking for the citrus industry during the 1938-39 crop year. In all, more than 3,300,000 boxes of grapefruit were bought under the program.

Grapefruit purchases were heaviest during the latter part of the season. At first the fruit was bought and shipped in fresh form. Later, the grapefruit was processed into grapefruit juice through a plan of competitive bidding by canners.

VEGETABLE PURCHASES IN FARMERS' MARKETS

During the first 3 months of the fiscal year, the Federal Surplus Commodities Corporation conducted a vegetable purchase program in farmers' markets situated in urban areas throughout the Northeast and North Central States. Purchases were made in 30 city markets located in Connecticut, Massachusetts, New York, New Jersey, Pennsylvania, Ohio, Michigan, and Minnesota. In all, approximately 556,000 bushels of eight commodities, including principally snap beans, beets, cabbage, carrots, celery, and tomatoes, were purchased at a total cost of \$295,700.

Commercial production of truck crops in the United States increased sharply in 1938, continuing the previous upward trend. In the areas where the purchases were made, the reported 1938 supplies were about 45 percent above the 1937 total. Local truck crop production, which is not officially estimated, was also reported to be extremely high. Prices being received in the farmers' markets in early July 1938 were one-quarter to one-third of the 1933-37 average for July.

The purchase program began in the eastern markets early in July and continued until the first part of September. Most of the mid-western activities began early in August and continued throughout September. Purchases were made at prices closely following the commercial market. Ordinarily, an attempt was made through the buying operations to absorb the quantity in excess of daily market requirements. Growers and marketing officials, through their recommendations, assisted in operating the program in each market.

GRADING ENCOURAGED

In carrying out the purchase program, in the farmers' markets, efforts were made to bring about permanent improvement in the grading, packing, and packaging of locally grown produce. In this way it was hoped to overcome the handicap under which local produce had suffered as compared with the higher quality, better-packed

products from commercial producing centers. Accordingly, produce offered for sale to the Federal Surplus Commodities Corporation had to meet grade requirements. Free inspection service on the sales was supplied as a further inducement. As a result of this program, and the efforts of cooperating agencies, much improvement in grading and packaging, as well as some standardization of containers, was reported in a number of the farmers' markets.

OTHER PURCHASE ACTIVITIES

Among the other major purchase programs were those for potatoes, cabbage, corn, wheat, cotton, and eggs. Purchases of surplus potatoes, made during the year in the major producing areas, exceeded 2,000,000 bushels. Approximately 59,500 tons of surplus cabbage were bought in 14 States and distributed for relief use in practically every State of the country. Corn was bought in the form of corn meal through bids from millers. Nearly 860,000 barrels, equivalent to about 3,600,000 bushels of corn, were bought and distributed for the use of needy families. The purchases of wheat were in the form of wheat flour, graham flour, and wheat cereal, of which more than 1,500,000 barrels, the equivalent of over 6,400,000 bushels of wheat, were bought for relief distribution.

Cotton bought under the program was used for mattresses and bed clothing through arrangements with various State relief agencies in cooperation with the Works Progress Administration. Purchases made during the last year approximated 29,000 bales of raw cotton and over 3,000,000 linear yards of mattress ticking, representing around 2,700 additional bales of raw cotton.

More than 100,000 cases of surplus eggs were bought during the year. These eggs were purchased during periods of seasonally heavy production when prices to producers were declining rapidly. The effect of the egg-buying activities was to strengthen producers' prices during the most critical times of the year. Eggs bought were distributed for relief use in practically every State.

THE DIVERSION PROGRAMS

Efforts to encourage wider uses for agricultural commodities are also carried out through so-called diversion programs. A wide range of farm products is being utilized under a number of different diversion programs designed to aid farmers in obtaining outlets for their products in other than normal channels of trade.

WIDER USES FOR COTTON

The programs for cotton and peanuts are significant in this respect. Numerous tests are being made to discover new and wider uses for cotton. One of the programs is designed to encourage the use of cotton as a covering for cotton bales, replacing jute bagging, the raw material of which is imported mainly from India.

Several other programs for cotton during the last fiscal year sought to develop new uses for the product, principally in various types of construction. Similar programs had been in effect during the two previous fiscal years. Under these programs the use of cotton is being

tested in the construction of highways, airplane runways, houses, and as a lining for ditches and reservoirs to check water seepage.

IMPROVED PEANUT MARKET

The diversion program for peanuts supplements the efforts of growers to improve marketing conditions, by aiding them in diverting surplus peanuts from the regular edible trade channels to byproduct uses. Under the program, cooperatives buy peanuts from growers at stipulated prices, and the peanuts are available for resale at slightly above the purchase price. Peanuts which are not resold to the regular trade are crushed and diverted into peanut oil and meal. On the peanuts crushed, the cooperatives are reimbursed under the diversion program for the difference between the price paid growers, plus handling charges, and the byproduct, or oil and meal value.

OTHER DIVERSION PROGRAMS

Among other programs in effect during the last fiscal year were those for the diversion of surplus tobacco to nicotine and other uses, the diversion of surplus sweet potatoes to starch, and the diversion of substandard dried figs and substandard prunes to byproducts. Wider outlets for walnuts and Pacific coast pears were also sought through diversion programs.

THE EXPORT PROGRAMS

Efforts to help United States farmers maintain their fair share of world markets for certain commodities were made through export programs.

In August 1938 the Secretary of Agriculture announced that a program would be instituted to encourage exports of United States wheat and flour. This was to be accomplished through the purchases of wheat in the domestic market and sale of this wheat to exporters at prices which would enable them to meet world competition. Payments were made for flour exports on the basis of differences between domestic and export flour prices. The Federal Surplus Commodities Corporation handled the operations of the wheat export program.

The program was developed to maintain a fair share of world trade for the United States and, along with other programs, to improve wheat prices. With record world supplies of wheat, including the third largest crop in the United States since 1915, increasing barriers to world trade, and numerous devices in effect to support or subsidize export trade in competitive countries, it was certain that United States export trade would be very limited and domestic prices greatly depressed, without Federal support.

The Federal Surplus Commodities Corporation set up regional offices for the purchase and sale of wheat for export. Trade members made daily offers to buy and sell. On the basis of the current market, domestically and abroad, daily offers could be accepted or rejected.

The principal effects of the export program appear to have been to maintain for the United States a fair share of the world wheat market, to reduce the potential carryover of United States wheat, and to increase the prices received by United States wheat producers.

In addition to the export program for wheat, other programs sought to encourage the export sale of high-quality cotton being produced in one-variety communities, to develop new foreign markets for pecans, to aid exports of walnuts, and to encourage butter exports to the Panama Canal Zone. Still another program was designed to recover, for United States dark-type tobacco producers, certain foreign outlets which had been rapidly curtailed.

AGREEMENT AND SURPLUS REMOVAL PROGRAMS OPEN THE WAY FOR COOPERATIVE ACTION

Marketing agreement- and surplus-removal programs provide the means for farmer-industry-Government cooperation in dealing with agricultural-marketing problems. They can also supply the framework through which more effective working relationships between producers and handlers may be established. In the operation of these programs, each group, whether it be of producers or of handlers, must recognize its responsibility to the others and to the general public. The programs by themselves can offer no more than an industry is willing to put into them. They are not a cure-all for farmers' marketing problems but, if used wisely, they can go far in solution of these problems.

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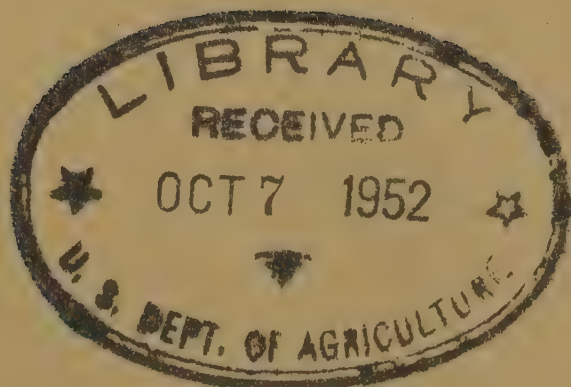
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Report of the Administrative Official in Charge of Surplus Removal and Marketing Agreement Programs

1940



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REPORT OF THE ADMINISTRATIVE OFFICIAL IN CHARGE OF SURPLUS REMOVAL AND MARKETING AGREEMENT PROGRAMS, 1940

UNITED STATES DEPARTMENT OF AGRICULTURE,
SURPLUS MARKETING ADMINISTRATION,
Washington, D. C., August 31, 1940.

HON. HENRY A. WALLACE,
Secretary of Agriculture.

DEAR MR. SECRETARY: I herewith present a report on the operation of surplus removal and marketing agreement programs for the fiscal year ended June 30, 1940. These programs represent the activities of the Federal Surplus Commodities Corporation and the Division of Marketing and Marketing Agreements, which were supervised under the direction of a single administrative official who was both Associate Administrator of the Agricultural Adjustment Administration, in charge of marketing agreement programs, and president of the Federal Surplus Commodities Corporation. Reorganization Plan No. III, effective June 30, 1940, provided for the establishment of the Surplus Marketing Administration, in which have been consolidated the administrative functions and responsibilities of the Corporation and the Division.

Sincerely,

MILO PERKINS, *Administrator.*

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THE ROLE OF SURPLUS REMOVAL AND MARKETING AGREEMENT PROGRAMS

By widening market outlets and stabilizing marketing conditions, the surplus removal and marketing agreement programs of the Department of Agriculture are aiding United States farmers directly. At the same time, they are making it possible for millions of consumers to get additional and needed food supplies.

Agricultural marketing problems have been reemphasized by war in the world. Exports of many farm crops produced in this country have already been choked off. Other foreign outlets are being closed as the effects of war spread. These losses have made more products available for domestic markets. They have made it necessary to distribute and use more here at home.

THE EXPORT LOSS

During the thirties, United States exports of farm products averaged about \$800,000,000 annually. For such crops as cotton, flue-cured tobacco, prunes, raisins, lard, winter pears, wheat, and apples, normal sales to foreign countries have been equal to from 15 to 50 percent of the annual production.

Europe has provided the main outlet for many of the agricultural commodities which have been exported from this country. For example, 70 percent of all the cotton, 80 percent of all the dried fruits, and nearly 90 percent of all the canned fruits exported from the United States normally moved to Europe. Europe has also been this country's principal market for many fresh fruits. It has been the destination for 85 percent of all the fresh apples exported, 75 percent of all the exports of fresh pears, and one-third of all the oranges and grapefruit exported in fresh form.

Obviously, the war has dealt a severe blow to farm exports. Farmers producing for the export market have been hit most directly, but the trade loss is being felt by the Nation as a whole. We are confronted with the job of finding new outlets to cushion the shock of these lost foreign markets.

SURPLUS PROBLEM NOT NEW

Agricultural surpluses are not a new problem. They have been with us in greater or less degree for two decades. The application of science to agricultural production, dislocations in foreign trade growing out of the first World War, and unemployment with its accompanying lack of consumer buying power—these have been major factors behind the surplus problem. The present war has merely aggravated and intensified conditions with which the country has been dealing on the various fronts of the national farm program. The recent export losses have made it necessary to reexamine all possible outlets and potential markets for agricultural commodities, especially here in the United States.

As a matter of national policy, the country is determined not to retreat from its foreign markets without first exhausting every practical device to keep them. It has become increasingly clear, however, that under present world conditions untapped markets here in the United States offer the best chance to hold adequate outlets for our farm production.

THE FARM MARKET AT HOME

The unsatisfied wants of millions of our citizens offer a challenge and an opportunity to increase domestic distribution of agricultural products. The chance to reach these potential new markets among our own lower-income groups is the most hopeful prospect in a clouded world-market situation. Here is a great opportunity for our farm producers and businessmen.

Recent studies show that two-thirds of the families in the United States—80,000,000 persons—have been living on an average cash income of only \$69 a month for a whole family. Such an income has to be spread very thinly to cover expenditures for bare necessities. For many million families it leaves only about 5 cents a meal for food. The story of underconsumption is told in these figures.

Families who are forced to live at the 5-cents-a-meal level cannot buy the amounts or kinds of food they need. They do not get enough of fruits and vegetables, of dairy and poultry products, or of meats. Neither can they buy adequate supplies of clothing and household goods. Studies show that families of four with incomes of \$500 a year or less spend only \$17 a year for cotton goods, as against expenditures of \$111 a year for families of four making \$5,000 a year or over.

If all families earning less than \$100 a month could bring their incomes up to that level, the national expenditure for food alone would increase by approximately 2 billion dollars a year, about half of which would go back to the farmer, thus raising the price level for his entire production. In the same way, low-income families would increase their cotton purchases materially if they had more buying power. In one way or another this untapped market must be reached.

An interesting change in the attitude of farm groups is now taking place. Heretofore, many of them have thought subconsciously that they were selling what they produced *to* a marketing system. They now are beginning to realize that they are selling *through* a marketing system to 130 million people. The food purchasing power of those people is a thing in which farmers have a definite stake. Their greatest stake is in the low-income groups where underconsumption offers a chance to increase sales of farm products enormously. Awareness of this fact is developing rapidly.

The major part of the country's underconsumption problem has stemmed from unemployment. With more people back at work and with national income increasing from \$46,830,000,000 in 1933 to an estimated \$73,500,000,000 for 1940, consumers have been able to buy considerably more of the things they need. However, there is still a big gap between agricultural surpluses on the farm and need among millions of our people. The country continues its fight for full re-employment at fair wages, and at the same time it must keep up its efforts to meet current underconsumption problems.

PUTTING SURPLUSES TO WORK

Definite progress has been made during the past year in bridging this gap by giving millions of low-income families a chance to enjoy a better standard of living at the same time that markets for the

country's agricultural surpluses are broadened. This work has gone forward in the belief that it makes sense to use farm surpluses at home, if they can no longer be sold abroad. Enabling low-income families to get a more adequate diet and an improved standard of living builds the health and economic defenses of the Nation.

Surplus removal programs are authorized by section 32 of Public, No. 320, as amended, and by related legislation. During the year ended June 30, 1940, programs carried out under this authorization were expanded materially. In anticipation of the adverse effects of the war upon farm markets, measures for encouraging increased domestic consumption and developing wider outlets were revised and adapted for more effective use in meeting changing situations.

TABLE 1.—*Summary of expenditures, all surplus removal programs, fiscal year 1940, by commodities*¹

Commodity	Expendi- ture	Commodity	Expendi- ture
Cotton and cotton products.....	\$55, 108, 186	Vegetables:	
Wheat and wheat flour.....	32, 179, 539	Beans, dry.....	\$1, 545, 530
Corn and corn products.....	7, 711, 615	Beans, green.....	67, 731
Pork products.....	25, 805, 388	Beets.....	43, 566
Oat products.....	1, 313, 734	Cabbage.....	373, 601
Rice.....	3, 071, 410	Carrots.....	88, 663
Eggs.....	15, 440, 520	Cauliflower.....	20, 660
Peanuts.....	1, 280, 843	Celery.....	3, 292
Dairy products:		Corn, fresh.....	42, 707
Butter.....	\$12, 649, 797	Onions.....	670, 581
Fluid milk.....	1, 173, 276	Peas.....	52, 424
Cheese.....	642, 037	Potatoes, sweet.....	296, 307
Dry skim milk.....	312, 217	Spinach.....	11, 000
Evaporated milk.....	3, 628, 445	Squash.....	66, 005
Total dairy products.....	18, 405, 772	Tomatoes.....	437, 801
Fruits:		Total vegetables.....	\$3, 719, 868
Apples.....	\$9, 109, 948	Pecans.....	206, 827
Dates.....	49, 608	Walnuts.....	1, 142, 048
Figs.....	51, 487	Coffee.....	200, 000
Grapefruit (fresh and juice).....	594, 028	Fish.....	143, 006
Loganberries.....	22, 117	Miscellaneous.....	² 34, 265
Oranges.....	4, 198, 473	Undistributed encumbrances ³	2, 527, 312
Peaches.....	1, 375, 530	Total.....	193, 803, 423
Pears.....	642, 339		
Plums.....	95, 935		
Prunes, fresh.....	20, 296		
Prunes.....	4, 039, 794		
Raisins.....	5, 313, 535		
Total fruits.....	25, 513, 090		

¹ Includes: Food-Stamp Plan, Cotton-Stamp Plan, direct purchase and distribution, export encouragement, and diversion to byproducts and new uses.

² Purchase of containers for distribution.

³ The distribution of additional encumbrances of \$2,527,312 for blue stamps among commodities cannot be estimated at this time. Figures reported are subject to revision when all obligations incurred have been liquidated.

ORDERLY MARKETING

Close attention has also been given to the stability of farm markets. During this unsettled year, marketing-agreement programs continued to serve farmers in all sections of the country. They helped maintain more stable marketing conditions for a wide range of commodities, including fluid milk and other dairy products, fruits and vegetables, and other specialty crops such as walnuts, hops, and tobacco. These programs are authorized by the Agricultural Mar-

keting Agreement Act of 1937 which reenacted, amended, and supplemented legislation which has been in effect since 1933. New marketing agreement programs were extended in the 1940 fiscal year to additional producing and marketing areas to bolster the efforts of farmers in establishing more orderly selling conditions for their products. Many of the marketing agreement programs were supplemented, in one way or another, by the surplus removal programs.

THE SURPLUS REMOVAL PROGRAMS

Four main types of agricultural surplus removal programs were carried out during the 1940 fiscal year to aid farmers by improving marketing conditions. These were: (1) Direct purchase of price-depressing surpluses of farm products for distribution to needy families through State welfare agencies and for use in free school lunches for undernourished children; (2) distribution of designated agricultural surpluses to public-aid families through regular trade channels under the Food- and Cotton-Stamp Plans; (3) diversion of burdensome surpluses from normal trade channels to byproduct uses and to encourage new outlets and new uses; and (4) exportation of certain farm surpluses through use of subsidies to encourage foreign sales.

TABLE 2.—Summary expenditures of all surplus removal programs, fiscal year 1940, by types of activity¹

Type of program	Expenditure
Food Stamp Plan.....	\$18, 941, 312
Cotton Stamp Plan.....	120, 594
Direct purchase and distribution.....	117, 795, 089
Export encouragement.....	52, 584, 456
Diversion to byproducts and new uses.....	4, 361, 972
Total.....	193, 803, 423

¹ Subject to revision upon liquidation of obligations incurred.

While supplies of most commodities were plentiful during the 1940 fiscal year and prices to producers were depressed by surpluses, approximately 20,000,000 low-income persons in the United States continued in need of more adequate supplies of the protective foods. Surplus removal programs were greatly extended during the fiscal year to meet this twofold problem of agricultural surpluses and widespread underconsumption among relief and other low-income groups.

DIRECT PURCHASE AND DISTRIBUTION

The principal activity in which most of the available funds were spent was the purchase of surplus commodities which were shipped to State welfare agencies for distribution to public aid families and for use in free school lunches. Under this direct purchase and distribution program, in response to needs, and on the basis of economic and marketing studies, surplus agricultural commodities were bought in producing and marketing areas throughout the country.

TABLE 3.—*Commodities bought and expenditures under direct purchase and distribution programs*¹

Commodity	Fiscal year 1940 ²			Oct. 3, 1933, through June 30, 1940		
	Quantity	Unit	Expendi- ture	Quantity	Unit	Expendi- ture ³
Apples:						
Dried.....	15,837,396	Pounds.....	\$201,076	32,029,396	Pounds.....	\$1,891,489
Fresh.....	9,070,766	Bushels.....	8,336,872	18,121,594	Bushels.....	17,838,361
Apricots, dried.....				3,590,000	Pounds.....	519,386
Beans:						
Dried.....	28,710,000	Pounds.....	1,005,530	185,218,877	Pounds.....	5,905,075
Fresh, green.....	2,494,774	Pounds.....	51,731	4,836,407	Pounds.....	98,206
Beets, fresh.....	3,615,560	Pounds.....	35,566	22,587,358	Pounds.....	179,693
Blackberries, canned.....				76,960	Cases.....	134,600
Blankets.....	2,196,000		1,916,418	2,196,000		1,916,418
Butter.....	31,686,700	Pounds.....	9,681,044	249,894,877	Pounds.....	69,142,205
Cabbage, fresh.....	20,744,206	Pounds.....	329,601	227,783,790	Pounds.....	2,261,224
Carrots, fresh.....	7,457,100	Pounds.....	72,663	18,503,150	Pounds.....	172,463
Cattle and calves.....				8,283,867	Head.....	118,055,508
Cauliflower.....	24,000	Crates.....	20,660	124,118	Crates.....	117,682
Celery.....	2,945	Crates.....	3,292	298,495	Crates.....	501,352
Cheese.....	4,283,970	Pounds.....	642,037	26,918,551	Pounds.....	4,585,692
Cherries.....				30,000	#10 cans.....	10,000
Comforter covering.....	6,000,000	Yards.....	523,943	69,393,203	Yards.....	6,748,691
Corn, fresh.....	110,883	Bushels.....	42,707	128,613	Bushels.....	47,313
Corn meal.....	311,930,000	Pounds.....	4,979,912	484,703,200	Pounds.....	7,703,977
Corn grits.....	93,690,000	Pounds.....	1,592,612	93,690,000	Pounds.....	1,592,612
Cotton, raw.....	59,766,730	Pounds.....	7,616,576	182,185,886	Pounds.....	23,272,820
Cotton containers.....				197,095		17,650
Cottonseed oil.....				9,780,000	Pounds.....	790,637
Eggs.....	2,245,952	Cases.....	12,834,520	3,255,586	Cases.....	20,626,354
Figs, dried.....				809,800	Pounds.....	31,428
Fish.....	3,249,052	Pounds.....	143,006	19,274,187	Pounds.....	1,119,673
Feed, grain.....				13,240,135	Bushels.....	9,521,769
Flour:						
Wheat.....	2,801,975	Barrels.....	10,977,042	6,139,914	Barrels.....	28,010,530
Graham.....	1,724,583	Barrels.....	6,327,600	2,308,554	Barrels.....	8,534,829
Fodder and stover.....				7,620	Tons.....	55,200
Goats.....				364,658	Head.....	605,230
Grapes.....				19,019,202	Pounds.....	453,552
Grapefruit.....	{ 38,346	Boxes.....	43,758	4,551,574	Boxes.....	5,419,719
Grapefruit juice.....	124,903	Cases.....	267,270	649,870	Mesh bags.....	62,625
Grass seed.....				3,810,867	Cases.....	4,953,086
Hay and straw.....				17,055,225	Pounds.....	1,160,180
Hogs.....				4,916	Tons.....	30,860
Lard.....	130,740,036	Pounds.....	8,924,228	7,777,573	Head.....	43,277,268
Loganberries.....	221	Tons.....	22,117	154,613,964	Pounds.....	9,842,314
Milk:				221	Tons.....	22,117
Condensed.....				790,004	Pounds.....	65,836
Dry skim.....	{ 4,980,800	Pounds.....	310,642	83,123,143	Pounds.....	5,467,786
Evaporated.....	5,000,000	Paper bags.....	34,250	18,156,975	Paper bags.....	127,214
Fluid.....	1,515,000	Cases.....	3,517,594	3,262,675	Cases.....	7,850,084
Oat cereal.....	2,176,823	Quarts.....	147,739	75,940,212	Quarts.....	4,377,688
Oats, rolled.....	44,984,970	Pounds.....	1,313,734	54,820,618	Pounds.....	1,720,295
Onions.....	44,381,980	Pounds.....	531,581	21,154,166	Pounds.....	62,564
Oranges.....	{ 2,112,505	Boxes.....	3,239,473	106,771,595	Pounds.....	1,570,656
Mesh bags.....		Mesh bags.....	15	6,173,994	Boxes.....	9,665,114
Peaches:				460,000	Mesh bags.....	41,973
Canned.....	149,663	Cases.....	328,801	149,663	Cases.....	328,801
Dried.....	1,058,326	Pounds.....	143,985	17,013,280	Pounds.....	1,543,997
Fresh.....	655,956	Bushels.....	836,744	669,850	Bushels.....	854,974
Pears:						
Dried.....	500	Tons.....	76,879	500	Tons.....	76,879
Fresh.....	274,126	Boxes.....	379,736	1,155,304	Boxes.....	1,961,951
Peas:						
Canned.....				864,192	Cases.....	1,872,153
Dried.....				30,592,645	Pounds.....	194,287
Fresh, green.....	566,370	Pounds.....	23,424	3,197,924	Pounds.....	130,342
Pecans.....	1,000,000	Pounds.....	206,827	1,000,000	Pounds.....	206,827
Plums.....	95,295	Boxes.....	95,935	127,650	Boxes.....	121,204
Pork:						
Salt.....	44,585,000	Pounds.....	2,798,099	49,134,637	Pounds.....	5,714,502
Smoked.....	66,113,500	Pounds.....	9,247,441	131,459,532	Pounds.....	20,585,184

¹ Includes purchases and expenditures in connection with the diversion of agricultural commodities to relief whether made by Federal Surplus Relief Corporation, its successor Federal Surplus Commodities Corporation, or Agricultural Adjustment Administration.

² All expenditures made from funds transferred to Federal Surplus Commodities Corporation pursuant to sec. 32, Public, No. 320, as amended.

³ Expenditures for commodity, inspection, loading, packaging, processing, and transportation.

TABLE 3.—Commodities bought and expenditures under direct purchase and distribution programs—Continued

Commodity	Fiscal year 1940			Oct. 3, 1933, through June 30, 1940		
	Quantity	Unit	Expenditure	Quantity	Unit	Expenditure
Potato flour				1,761,720	Pounds	86,857
Potato starch				800,000	Pounds	49,465
Potatoes:						
Sweet	397,246	Bushels	241,730	1,369,608	Bushels	907,558
White				11,478,034	Bushels	7,209,978
Prunes:						
Dried	93,053,040	Pounds	3,661,871	298,326,965	Pounds	13,161,370
Fresh	13,850	Bushels	20,296	27,593	Bushels	42,223
Raisins	146,277,160	Pounds	5,103,035	196,476,160	Pounds	7,240,286
Rice, milled	94,203,000	Pounds	2,786,210	234,515,483	Pounds	7,186,514
Sausage				384,000	Pounds	49,943
Seed, grain				19,057,513	Bushels	19,965,049
Sheep				3,638,162	Head	12,634,146
Sheeting	10,049,770	Yards	1,790,057	31,018,493	Yards	5,756,277
Shipping containers				366,345		20,262
Squash, fall and winter	4,254	Tons	66,005	4,254	Tons	66,005
Sugar, beet				11,500,000	Pounds	523,417
Syrup, cane				1,787,000	Gallons	916,461
Syrup, sorghum				148,085	Gallons	75,118
Ticking	16,080,000	Yards	1,629,411	43,848,246	Yards	4,527,742
Tomatoes:						
Canned				116,701	Cases	191,015
Fresh	18,953,824	Pounds	385,801	39,946,483	Pounds	852,324
Toweling				26,700,562	Yards	2,806,325
Turnips, fresh				1,570,665	Pounds	9,429
Walnuts, English				1,014,000	Pounds	152,516
Wheat, cereal	131,167,120	Pounds	2,285,993	237,717,620	Pounds	4,180,310
Wheat (for Millwheato)				500,000	Bushels	1,159,822
Wheat (for flour)				10,115,393	Bushels	5,816,345
Miscellaneous						⁴ 7,340,089
Total			117,795,089			⁵ 564,696,945

⁴ Includes the following purchases from Federal Emergency Relief Administration for direct relief: 1,023,891 blankets, \$1,239,617; 412,850 tons of anthracite coal, \$3,495,470; 715,832 tons of bituminous coal, \$2,470,256; 5,018 tons of coke, \$31,473; 128,000 pounds of cocoa, \$11,806; 768,000 pounds of canned salmon, \$71,180; and miscellaneous purchases costing \$18,411.

⁵ Total does not include expenditures for paper and bags in the amount of \$276,607. Total is also subject to revision since all obligations incurred have not been liquidated.

During the fiscal year more than 90,000 carloads of price-depressing surplus farm products were bought and shipped to the States at a total cost slightly in excess of \$117,700,000. Commodities were sent to welfare agencies for distribution to the needy in the 48 States, the District of Columbia, the Virgin Islands, and Puerto Rico.

In all, over 40 agricultural products were bought for distribution. These included 14 vegetables, 7 fresh fruits, 5 dried fruits, 6 dairy and poultry products, 4 grain products, smoked and salted pork products and lard, as well as raw cotton and cotton products and other miscellaneous commodities. These extensive operations affected farmers in all parts of the United States.

Commodities bought were allocated to the States on the basis of availability of supplies, extent of the eligible case load certified by State and local authorities, and requests made by State departments of public welfare. Rates at which surplus commodities are distributed are designed to supplement, and not replace, purchases needy persons are able to make so as to assure a more adequate diet and to encourage increased domestic consumption of these surplus products.

TABLE 4.—*Total distribution of surplus commodities by States, and average number of families and persons served, fiscal year 1940*

State	Pounds distributed	Number served ¹	
		Families	Persons
Alabama.....	32,403,554	47,390	159,394
Arizona.....	6,141,932	9,878	36,476
Arkansas.....	35,541,532	60,199	208,059
California.....	90,809,886	143,559	440,920
Colorado.....	13,169,938	21,925	91,067
Connecticut.....	12,199,782	17,671	72,135
Delaware.....	1,387,487	3,050	10,309
Florida.....	26,197,454	57,404	230,331
Georgia.....	41,711,777	70,391	254,056
Idaho.....	9,828,425	18,708	66,533
Illinois.....	113,657,366	209,341	534,283
Indiana.....	27,145,266	46,802	186,103
Iowa.....	22,287,110	38,711	157,084
Kansas.....	28,905,053	51,575	158,695
Kentucky.....	33,662,987	63,311	307,932
Louisiana.....	48,918,666	83,484	263,038
Maine.....	13,268,668	28,901	125,076
Maryland.....	9,882,324	16,170	54,337
Massachusetts.....	112,711,860	179,618	726,593
Michigan.....	81,287,499	128,238	463,463
Minnesota.....	41,982,780	70,126	265,968
Mississippi.....	75,573,402	111,870	409,057
Missouri.....	43,437,392	55,701	216,046
Montana.....	12,303,440	20,168	74,219
Nebraska.....	22,650,735	37,045	132,589
Nevada.....	1,613,552	2,877	8,074
New Hampshire.....	9,304,738	16,025	67,370
New Jersey.....	48,164,860	85,568	260,433
New Mexico.....	6,748,802	9,555	29,269
New York.....	153,950,333	294,479	1,064,223
North Carolina.....	31,206,938	39,485	183,742
North Dakota.....	23,984,350	27,855	120,961
Ohio.....	86,103,407	131,095	412,357
Oklahoma.....	69,278,988	84,985	327,526
Oregon.....	6,364,716	7,832	28,700
Pennsylvania.....	106,161,558	142,882	585,814
Rhode Island.....	3,827,781	9,355	37,358
South Carolina.....	23,105,647	38,721	109,591
South Dakota.....	32,485,343	37,720	150,300
Tennessee.....	27,726,771	55,305	192,983
Texas.....	55,597,448	102,443	363,451
Utah.....	8,610,405	12,647	41,370
Vermont.....	7,037,784	11,532	50,693
Virginia.....	14,231,586	21,596	80,498
Washington.....	20,570,226	24,470	91,034
West Virginia.....	32,745,866	43,182	157,165
Wisconsin.....	30,171,782	60,014	233,237
Wyoming.....	3,650,376	6,020	19,925
District of Columbia.....	10,252,770	8,859	33,085
Puerto Rico.....	22,906,243	142,194	712,004
Virgin Islands.....	188,143	1,536	3,187
Navajo-Hopi Indian Reservation.....	727,281	2,211	9,744
Total.....	1,793,784,009	3,011,679	11,017,857

¹ Does not include recipients in school-lunch programs, institutions and organizations, camps, and other special projects.

Approximately 1,800,000,000 pounds of the commodities purchased were distributed during the fiscal year in accordance with requests from State welfare agencies. Surplus farm products were given out by State and local welfare bodies to a monthly average of 11,000,000 persons.

SURPLUSES FOR SCHOOL LUNCHES

The free school-lunch program is an increasingly important phase of the direct purchase and distribution program. In the 1940 fiscal year free lunches were served to more than 3,000,000 children in the

peak month. Noonday meals, made in whole or in part from surplus commodities, were available in 43,000 schools in low-income areas in all sections. Approximately 100,000,000 pounds of surplus commodities distributed to States were used in preparation of these lunches.

Under the school-lunch program undernourished children are given an opportunity to eat surplus agricultural foodstuffs. This activity depends largely on the cooperation and initiative of local civic, fraternal, educational, and welfare organizations. These groups assume the responsibility for operating the program in local schools. Surplus foods are donated for use in the lunches through the State welfare departments. Foods needed in addition to surplus commodities are bought or obtained otherwise by local sponsoring groups in order to provide school children with well-balanced noon meals. This adds to the volume of foodstuffs moving into consumption.

TABLE 5.—*Distribution of surplus commodities for the school-lunch program by States, and number of schools and children served, fiscal year 1940*

State	Pounds food distributed	Peak number served	
		Schools	Children
Alabama.....	2,541,335	665	41,042
Arizona.....	587,939	139	10,272
Arkansas.....	1,647,271	411	38,438
California.....	6,375,593	2,160	200,201
Colorado.....	1,036,640	470	32,978
Connecticut.....	84,639	82	9,533
Delaware.....	92,554	85	2,282
Florida.....	1,179,663	492	52,518
Georgia.....	7,692,123	2,843	279,395
Idaho.....	576,074	259	20,417
Illinois.....	3,180,498	1,301	72,614
Indiana.....	1,068,378	593	54,702
Iowa.....	187,450	94	4,413
Kansas.....	535,727	285	12,517
Kentucky.....	97,397	88	3,867
Louisiana.....	1,986,033	883	68,258
Maine.....	739,115	691	26,981
Maryland.....	265,745	159	6,644
Massachusetts.....	1,155,908	519	48,453
Michigan.....	3,761,922	2,274	128,446
Minnesota.....	1,747,564	1,775	73,969
Mississippi.....	2,301,234	702	47,125
Missouri.....	2,534,967	1,558	62,345
Montana.....	692,282	827	26,314
Nebraska.....	1,174,318	944	49,366
Nevada.....	93,042	61	1,764
New Hampshire.....	423,643	404	42,865
New Jersey.....	1,699,587	637	50,103
New Mexico.....	776,965	273	22,089
New York.....	1,252,185	1,026	129,030
North Carolina.....	4,856,386	2,104	145,289
North Dakota.....	673,059	779	18,866
Ohio.....	1,120,274	534	27,730
Oklahoma.....	11,657,588	3,116	278,321
Oregon.....	611,802	260	14,156
Pennsylvania.....	2,269,628	829	206,671
Rhode Island.....	36,724	31	746
South Carolina.....	5,185,943	1,243	127,870
South Dakota.....	1,714,425	2,260	40,092
Tennessee.....	3,802,625	2,233	100,065
Texas.....	3,383,828	1,842	135,444
Utah.....	691,208	233	28,063
Vermont.....	551,078	755	29,918
Virginia.....	2,011,374	1,046	43,940
Washington.....	3,497,514	852	73,488
West Virginia.....	1,870,300	914	46,001
Wisconsin.....	991,717	766	39,483
Wyoming.....	292,490	172	7,697
District of Columbia.....	748,526	114	9,537
Puerto Rico.....	855,287	574	31,780
Virgin Islands.....	4,986	12	1,124
Total.....	94,314,553	43,369	3,025,222

Further expansion of the school-lunch program to utilize increasing quantities of surplus farm products is contemplated for the 1941 fiscal year. As many as 6,000,000 children may be able to receive free lunches. However, there are 9,000,000 children in low-income areas who need more food and could take part if it were possible to extend the program to reach all of them.

THE FOOD-STAMP PLAN

The most recent method for distributing surplus agricultural commodities to low-income persons eligible for public aid is through the stamp plan. Under this plan increased buying power in the form of special stamps is placed into the hands of those taking part. In areas where the plan is in effect, these special stamps are good at local stores in exchange for those products officially designated by the Secretary of Agriculture as being in surplus. Provision is made for the continuance of regular expenditures so that this additional buying power will bring about an increase in consumption.

Regular commercial channels of trade are used by the stamp plan in moving surpluses from farmer to needy consumer. This is one of the main ways in which the stamp plan differs from the direct purchase and distribution method. The latter way of distributing surpluses does not utilize commercial trade channels, inasmuch as the commodities are bought by the Federal Government in producing areas or in terminal markets, shipped to States mostly in carlots, and distributed by State and local welfare agencies directly to the needy.

The stamp-plan method also is being tried out on an experimental basis for cotton goods.

STAMPS MOVE FOOD SURPLUSES

The Food Stamp Plan started May 16, 1939. Its objectives are to raise farmers' incomes by increasing the effective demand for their products, to use food surpluses so as to improve diets of undernourished families in this country, and to accomplish this through use of regular trade channels in a manner that will contribute toward improved business conditions.

During the 1940 fiscal year, the Food Stamp Plan was extended gradually to additional areas after earlier experimental tests in a few areas. By December 1939 the plan was operating in 19 areas with approximately 400,000 people participating. By April 1940 it was operating in 62 areas with nearly 1,300,000 people taking part. At the end of June there were 83 areas with slightly over 1,488,000 persons taking part. In addition, 41 areas had been designated for operation under the plan.

TABLE 6.—*Food Stamp Plan: Number of areas included, participants, and value of surplus-food-stamps issued, by months, May 1939–June 1940*

Month	Number of areas included	Participants		Value of surplus food stamps issued
		Number of cases	Number of persons	
1939				
May.....	1	5, 711	20, 958	\$22, 473
June.....	2	15, 941	50, 985	101, 848
July.....	3	28, 128	75, 668	158, 455
August.....	6	46, 964	136, 486	285, 413
September.....	6	54, 881	156, 339	334, 944
October.....	8	61, 018	173, 878	371, 203
November.....	14	79, 000	220, 648	481, 148
December.....	19	137, 286	398, 853	833, 956
1940				
January.....	30	196, 648	569, 214	1, 176, 843
February.....	38	304, 398	852, 857	1, 745, 367
March.....	53	370, 294	1, 066, 851	2, 210, 602
April.....	62	443, 208	1, 277, 282	2, 667, 051
May.....	71	476, 613	1, 393, 324	2, 986, 686
June.....	83	507, 021	1, 488, 532	3, 161, 982

Mechanics of operating the Food Stamp Plan are simple. Studies show that persons getting public aid spend an average of about a dollar a week per person for food. In most areas where the plan is in effect, they may buy, voluntarily, a minimum of a dollar's worth of orange-colored stamps a week for each member of the family. These orange-colored stamps are good for any food in any store in the area where the Food Stamp Plan is operating. Those buying the orange-colored stamps receive in most instances half again as many blue-colored stamps free. These blue-colored stamps are good at local stores in exchange only for foods officially listed as being in surplus by the Secretary of Agriculture. Merchants who receive stamps present them direct to the Federal Government for payment, use them to pay their wholesalers, or send them to banks for collection.

Orange-colored stamps, sold to persons taking part in the Food Stamp Plan, serve to guarantee the continuance of regular food expenditures. Free blue stamps serve to increase the amount of food bought, and can be spent only for designated surplus foodstuffs—products that are in the worst price position from the farmers' standpoint. Instead of having 5 cents a meal, persons taking part in the stamp plan have at least 7½ cents to spend for each meal. Where the Food Stamp Plan is in effect, it takes the place of direct distribution of surplus commodities by welfare agencies, except for use in school lunches and institutions.

While, in general, 50 cents worth of blue-colored stamps are given free with each dollar's worth of orange-colored stamps bought, actually orange stamps required to be purchased and also the ratio of orange stamps to blue stamps may vary from area to area depending upon such factors as local food-purchase habits and the amount of public assistance already being extended to persons eligible to participate in the plan. There has been a marked tendency for orange-colored stamp purchases per person to approach the maximum amounts permitted, as families taking part recognize the advantage of increasing their total expenditures for food.

INCREASES IN CONSUMPTION

The extent to which designated surpluses of individual agricultural foodstuffs can be moved into consumption under the stamp plan is indicated from actual purchases made with blue stamps during last year. Of the \$16,414,000 worth of blue stamps used during the 1940 fiscal year, nearly 40 percent was spent in May and June 1940. Monthly volume of blue stamps used increases as additional areas begin operating under the plan. The greater the increase, the greater the effect upon farm income.

During the 1940 fiscal year, 18 percent of the blue stamps was exchanged for butter, 15.9 percent for eggs, 17.7 percent for flour and cereals, 19.8 percent for fresh and dried fruits and fresh vegetables, and 28.6 percent for lard and pork products.

TABLE 7.—Estimated quantities and value of commodities purchased with blue stamps under the Food Stamp Plan, fiscal year 1940

Commodity	Unit	Quantity purchased	Value of purchases	Percent of total expenditure
		<i>1,000 units</i>	<i>1,000 dollars</i>	
Butter.....	Pounds.....	9,408	2,960	18.0
Eggs.....	Dozen.....	11,184	2,606	15.9
Flour.....	Bushels wheat.....	1,625	2,262	13.8
Rice.....	Pounds.....	4,361	260	1.6
Corn meal.....	Pounds.....	11,781	325	2.0
Hominy grits.....	Pounds.....	823	43	.3
Dry beans.....	Pounds.....	7,948	540	3.3
Onions.....	Pounds.....	4,969	139	.8
Cabbage.....	Pounds.....	1,578	44	.3
Peas.....	Pounds.....	388	29	.2
Tomatoes.....	Pounds.....	1,244	52	.3
Snap beans.....	Pounds.....	237	16	.08
Beets.....	Pounds.....	280	8	.05
Carrots.....	Pounds.....	435	16	.1
Spinach.....	Pounds.....	243	11	.07
Prunes.....	Pounds.....	3,349	265	1.6
Raisins.....	Pounds.....	2,697	209	1.3
Oranges.....	Boxes.....	276	959	5.8
Grapefruit.....	Boxes.....	142	283	1.7
Peaches.....	Bushels.....	29	66	.4
Pears.....	Boxes.....	19	55	.3
Apples.....	Bushels.....	299	572	3.5
Lard.....	Pounds.....	10,015	855	5.2
Pork.....	Pounds.....	22,984	3,839	23.4
Total.....			¹ 16,414	100.0

¹ The distribution of a dditional encumbrances of \$2,527,312 for blue stamps among commodities could not be estimated at this time.

Approximately 9,400,000 pounds of butter and nearly 11,200,000 dozen eggs were purchased by needy families. More than 18,500,000 pounds of wheat, rice, and other cereal products were bought with blue stamps. Over 22,900,000 pounds of pork and 10,000,000 pounds of lard were purchased. Among the principal fruits moved through blue stamps were 3,349,000 pounds of dried prunes, 2,697,000 pounds of raisins, 299,000 bushels of apples, 276,000 boxes of oranges, and 142,000 boxes of grapefruit. During the fiscal year fresh vegetables were on the official surplus list only during the early months when a very small number of areas were included in the program. During the period 1,244,000 pounds of tomatoes, 1,578,000 pounds of cabbage, and 388,000 pounds of peas were purchased with blue stamps. In addition, 4,969,000 pounds of onions and 7,948,000 pounds of dry beans were bought with the stamps.

Greater flexibility in dealing with seasonal surpluses of certain farm products was made possible through addition of fresh vegetables to the official surplus list, designations being by regions or areas for specified periods during which local supplies are heavy. Through this feature, families taking part in the stamp plan are able to get needed fresh vegetables at the same time that expanded outlets are provided for truck crop growers who market in stamp-plan areas. First local vegetable designations, made in June 1940, included peas, cabbage, spinach, carrots, snap beans, and beets according to the areas in which surpluses existed.

FOOD PLAN TO EXPAND

The foundation for operating the Food Stamp Plan was built carefully during the first year. For several months, the plan operated on an experimental basis in only a few areas. Gradually it was extended to others for further testing. In this way it was possible to determine the value of the plan for moving surplus commodities through regular trade channels, and to work out operating details so as to assure effective administration.

From the very beginning care was taken to decentralize administrative control in order to permit the greatest amount of local responsibility in the administration of the program. More than 1,200 areas have requested the Food Stamp Plan but, of course, with funds made available it has not been possible to extend the plan that far.

Further gradual expansion of the Food Stamp Plan is contemplated for the 1941 fiscal year. It is probable that by the end of the year the plan may be in effect in at least 250 areas and serving between 4,000,000 and 5,000,000 needy persons.

COTTON STAMP PLAN

While the Food Stamp Plan makes it possible for the needy to eat the surplus of foodstuffs, the Cotton Stamp Plan makes it possible for them to wear and otherwise use the surplus of cotton. Designed to encourage an increase in domestic consumption of cotton, the Cotton Stamp Plan was started as an experiment May 7, 1940, in Memphis and Shelby County, Tenn. The following month a test of the plan was started in the Springfield, Mass., area.

The Cotton Stamp Plan follows the same general operating principles as the Food Stamp Plan. Where the Cotton Stamp Plan is in effect, eligible low-income persons have the opportunity of buying green-colored stamps in the same approximate amount that they formerly spent for clothing and household goods made from cotton. For every dollar's worth of green-colored stamps bought, a dollar's worth of brown-colored stamps is given free. Both stamps are good in any drygoods store in the area where the plan operates in exchange for any product made entirely from American cotton and manufactured in this country.

While at the end of the 1940 fiscal year the Cotton Stamp Plan had been started in only two areas, operations were scheduled to begin in July in St. Paul and Minneapolis, Minn. The Cotton Stamp Plan will be tried experimentally in several areas. Further extension of the plan must be very gradual until its value in moving increased quantities of cotton into consumption is firmly established.

WIDER OUTLETS FOR SURPLUSES

Search for wider outlets and new uses for agricultural commodities in which surpluses exist was continued during the 1940 fiscal year through diversion programs. These programs dealt with surpluses of such commodities as cotton, peanuts, sweetpotatoes, dates, figs, fall and winter pears, dried prunes, walnuts, Puerto Rican coffee, and fluid milk.

TABLE 8.—*Diversion of agricultural commodities to byproducts and new uses, quantities, and expenditures, fiscal year 1940*¹

Program	Quantity	Unit	Expenditure
Cotton:			
Diversion to cotton bagging.....	13, 201	Bales.....	\$302, 825
Diversion to paper.....	1, 066	Bales.....	33, 505
Diversion to insulation.....	1, 046	Bales.....	180, 000
Wheat: Diversion of Pacific Northwest wheat to live-stock feed.....	11, 647	Bushels.....	8, 054
Coffee, Puerto Rican, to United States.....	4, 200, 000	Pounds.....	200, 000
Peanuts: Diversion to peanut oil.....	34, 671	Tons.....	1, 280, 843
Sweetpotatoes: Diversion to starch.....	272, 881	Bushels.....	54, 577
Fluid-milk utilization:			
Boston, Mass.....	19, 064, 921	Quarts.....	305, 337
Chicago, Ill.....	18, 035, 487	Quarts.....	701, 306
New Orleans, La.....	271, 498	Quarts.....	18, 894
Dates: Diversion to byproducts.....	1, 626, 428	Pounds.....	49, 608
Figs: Diversion to stockfeed.....	3, 059	Tons.....	51, 487
Winter pears: Diversion to new markets.....	203, 071	Boxes.....	2 81, 049
Prunes: Diversion to stockfeed.....	5, 176	Tons.....	104, 443
Walnuts: Diversion to shelling.....	272, 761	100-pound bags.....	900, 044
Total.....			4, 361, 972

¹ Figures reported subject to revision when all obligations incurred have been liquidated.

² Estimated.

Programs for cotton sought to encourage manufacture and use of cotton as a bagging for bale coverings, and use of cotton in manufacture of writing paper. Another program was designed to develop a new use for cotton in insulating houses and other structures.

Growers of peanuts were aided in moving surplus stocks into peanut oil and other byproduct outlets through a diversion program which supplemented other industry efforts to improve marketing conditions and returns. Development of a domestic root-starch industry continued to be encouraged through a diversion program utilizing surplus sweetpotatoes.

Surpluses of dates, figs, dried prunes, and walnuts were diverted from normal channels of trade to byproduct outlets. Fall and winter pear sales in new domestic markets and in export outlets were encouraged under a diversion program. The diversion program for Puerto Rican coffee sought to help growers sell more of their product in the continental market.

Efforts to expand the dairy farmers' market for fluid milk were extended during the 1940 fiscal year through low-cost milk programs. Through use of a Federal payment, increased quantities of milk, which otherwise would be used for manufacturing purposes with lower returns to producers, are being made available to relief families at prices within their reach. These programs operate in areas where marketing agreement programs are in effect for fluid milk markets.

EXPORT SALES ENCOURAGED

Exports of wheat, cotton, and corn were assisted during the 1940 fiscal year through use of subsidies which enabled American exporters to compete in foreign markets.

An export program for wheat, put into effect in the previous fiscal year, was continued on a conservative basis because of the uncertainties arising out of the war in Europe. This program applied to exports of American wheat and flour. A large proportion of wheat sold by exporters under the program moved from the Pacific Northwest where a special surplus problem existed.

TABLE 9.—*Export encouragement programs conducted during the fiscal year 1940*

Export program	Quantity	Unit	Expenditure ¹
Cotton and cotton products.....	² 6,335,358	Bales.....	\$40,940,402
One variety cotton.....	12,592	Bales.....	54,455
Wheat.....	18,572,354	Bushels.....	5,659,339
Wheat flour.....	16,447,496	Bushels.....	4,426,451
Corn.....	25,282,000	Bushels.....	758,466
Butter to the Canal Zone.....	239,297	Pounds.....	8,753
Winter pears.....	123,737	Boxes.....	³ 49,675
Walnuts.....	38,001	100-pound bags....	³ 152,004
Red Cross export:			
Raisins.....	750,000	Pounds.....	1,500
Prunes.....	800,000	Pounds.....	8,480
Pork products.....	2,517,273	Pounds.....	141,620
Wheat products.....	13,283,840	Pounds.....	233,060
Corn products.....	1,250,000	Pounds.....	12,625
Rice.....	559,990	Pounds.....	25,200
Evaporated milk.....	1,911,215	Pounds.....	110,851
Dry skim milk.....	25,000	Pounds.....	1,575
Total.....			52,584,456

¹ Figures reported subject to revision when all obligations incurred have been liquidated.

² Represents total declared for export.

³ Estimated.

An export program for cotton was put into effect early in the 1940 fiscal year to encourage sales to foreign countries. This program applied to cotton and cotton goods.

During the latter half of the fiscal year an export program for corn was put into effect. Under this program surplus corn was sold to foreign buyers, but only a small part of the total purchased actually had moved by the end of the fiscal year.

As a matter of national policy, this country is determined to make every effort to hold its foreign markets. The more export trade that can be held, the less severe will be the necessary internal readjustments.

Export subsidies are useful expedients under certain conditions. However, experience during the last fiscal year indicates that because of world political and economic conditions their use is becoming less and less effective.

THE MARKETING AGREEMENT PROGRAMS

During the 1940 fiscal year marketing-agreement programs continued their important role in stabilizing selling conditions for a wide range of agricultural commodities and in improving returns to producers. Altogether, 47 programs were in effect during the year in producing and marketing areas in widespread sections of the country.

Farm value of commodities sold under these marketing-agreement programs exceeded \$400,000,000. This was an increase of more than \$60,000,000 over the value of commodities under programs in effect in the 1939 fiscal year. Most of this increase took place under marketing-agreement programs already in effect, and only a small part through addition of new programs within the year.

WHAT THE PROGRAMS DO

Marketing-agreement programs regulate handling of agricultural commodities in interstate and foreign commerce. They operate through marketing agreements and orders issued by the Secretary of Agriculture following public hearings and required approval by producers and by handlers. This democratic procedure provides for referenda among producers on the issuance of an order and the opportunity for handlers to sign an agreement on which the order is based.

The Marketing Agreement Act permits use of marketing agreements for any agricultural commodity. However, the orders, which make the terms of agreements applicable to all handlers, are limited to specified commodities. These are milk and its products, all fresh vegetables, fresh fruits (in the case of apples, only those produced in Washington, Oregon, and Idaho), olives and asparagus for canning, pecans, walnuts, soybeans, naval stores, package bees and queens, hops, and tobacco.

METHODS EMPLOYED

Two general methods are employed through marketing-agreement programs in dealing with commodity marketing problems. For milk the programs generally establish minimum prices which handlers are required to pay producers and provide for a method through which payments are made. Programs for the various crops usually provide for regulating shipments out of a producing area and controlling surpluses so as to adjust supplies more nearly in line with market requirements.

Operations under marketing-agreement programs are frequently supplemented by surplus-removal activities. In this way it is possible to render more effective aid to producers in improving selling conditions and returns.

Several of the marketing-agreement programs are coordinated with similar regulatory measures under State authority. Arrangements for Federal-State cooperation in development and administration of these programs have been worked out with eight States. This affords producers a more complete approach in dealing with marketing problems involving intrastate and interstate commerce.

AGREEMENTS AND ORDERS

All of the programs for crops are in effect through marketing agreements and orders except one for Connecticut Valley shade tobacco which is in effect through a marketing agreement and license issued before the enactment of amendments in 1935. Most of the programs for milk are in effect through orders. A few are in effect through agreements with and without orders or licenses, and some in effect through licenses alone. Efforts are being continued to bring all programs on a basis of marketing agreements with or without orders.

Enforcement of the regulatory features of all marketing-agreement programs has been aided materially by the June 5, 1939, decisions of the United States Supreme Court in the Boston and New York milk-order cases. These decisions confirmed the constitutionality of the Marketing Agreement Act under which the orders were issued. Since these rulings by the Supreme Court, handler compliance with marketing-agreement programs has improved materially. Where litigation has been necessary, a vigorous policy of enforcing the marketing-agreement programs has been followed.

DAIRY MARKETING-AGREEMENT PROGRAMS

In the dairy industry there were 29 marketing-agreement programs in effect during the 1940 fiscal year. Of this number, 27 provided for regulation of handling milk in fluid-milk markets, 1 regulated handling of milk manufactured into evaporated milk, and 1 regulated handling of skim milk manufactured into dry skim milk. Plants located throughout the Nation are affected by evaporated-milk and dry-skim-milk marketing-agreement programs.

TABLE 10.—*Estimated number of producers and estimated volume and value of milk used in markets under marketing-agreement programs, fiscal year 1940*

Market	Number of producers	Annual volume	Total value
		1,000 pounds	1,000 dollars
Battle Creek ¹	280	22,953	418
Boston ²	15,494	1,110,201	21,050
Chicago ³	16,090	1,626,680	29,576
Cincinnati ³	4,671	217,519	4,335
Denver ¹	1,794	⁹ 147,147	2,107
Dubuque ³	267	22,072	331
Fall River ³	351	34,719	1,062
Fort Wayne ³	912	44,645	771
Kalamazoo ¹	400	33,666	602
Kansas City, Mo. ³	1,459	128,547	2,449
La Porte County ³	290	16,239	316
Leavenworth ¹	89	⁹ 9,540	152
Louisville ⁴	1,489	136,575	2,483
Lowell-Lawrence ²	¹⁰ 792	54,465	1,599
New Bedford ⁵	330	28,136	1,203
New Orleans ³	2,276	105,224	2,594
New York ³	60,176	5,008,380	102,384
Omaha ³	2,382	100,658	1,738
Quad Cities ⁶	1,194	76,868	1,189
San Diego ¹	142	⁹ 90,180	1,956
Sioux City ⁷	1,117	44,576	664
St. Louis ³	4,600	333,019	6,030
Toledo ³	2,462	133,022	2,400
Topeka ⁶	223	⁹ 23,000	358
Twin Cities ¹	5,737	463,856	6,955
Washington, D. C. ³	1,328	¹¹ 59,590	¹¹ 1,664
Wichita ¹	419	⁹ 44,873	754
Total ¹²	125,436	10,066,715	195,476

¹ License in effect.

² Marketing agreement and order in effect.

³ Order in effect.

⁴ License to Mar. 31, 1940; order in effect from Apr. 1, 1940.

⁵ License terminated Mar. 31, 1940; no Federal regulation now in effect.

⁶ License to Jan. 31, 1940; order in effect from Feb. 1, 1940.

⁷ License to Apr. 15, 1940; order in effect from Apr. 16, 1940.

⁸ Marketing agreement in effect.

⁹ Reported in butterfat and converted to milk equivalent.

¹⁰ Number of producers estimated by Massachusetts Milk Control Board.

¹¹ For period, Feb. 1 to Apr. 30, 1940.

¹² Does not include marketing-agreement programs for the evaporated milk and the dry-skim-milk industries.

More than 125,000 dairy farmers were affected directly by fluid-milk marketing-agreement programs. During the year, these producers supplied their markets with over 10,000,000,000 pounds of milk which had a value in excess of \$195,000,000. The evaporated-milk marketing-agreement program regulated handling of nearly 5,000,000,000 pounds of milk with a farm value of \$59,000,000 and coming from over 111,000 producers. It is difficult to estimate the number of producers affected by the dry-skim-milk marketing-agreement program, but during the year the program covered approximately 250,000,000 pounds of dry skim milk valued at \$15,000,000.

HEARINGS AND OTHER ACTIVITIES

During the course of the fiscal year activities in connection with dairy marketing-agreement programs included not only supervision of existing programs and consideration of proposals to amend or institute programs but also analysis of supply and demand conditions affecting marketing of milk and milk products in each market as well as analysis of broader economic problems arising from operation of these regulatory measures. In addition, cooperative relationships with State authorities were maintained and efforts were directed at development and administration of joint programs.

Altogether, 19 hearings were conducted in 17 milk markets during the year for the purpose of receiving evidence relative to new marketing agreements and orders or the amending of ones already in effect. Marketing areas where new programs were discussed included Calumet, Ind.; Fall River, Mass.; Louisville, Ky.; New Orleans, La.; Providence, R. I.; Quad Cities, Iowa and Ill.; Sioux City, Iowa; and Washington, D. C. In two of these markets, Providence and Calumet, the record indicated that a marketing-agreement program was not feasible at that time.

NEW PROGRAMS

During the year, 6 new orders were issued. In Louisville, Quad Cities, and Sioux City, orders replaced licenses. In Fall River a new order replaced a previously issued order. In New Orleans and Washington no regulation was in effect at the time of the issuance of the new orders.

In general milk marketing agreements, orders, and licenses define the marketing area to which the regulation applies, provide for an agency to administer the program, and establish a method of fixing minimum prices for milk according to its utilization and a method for prorating returns to producers. Returns are distributed to producers by means of either an individual-handler or a market-wide pool. If an individual-handler pool is provided, prices received by all producers delivering milk to any one handler are uniform, but differ from prices received by producers delivering to other handlers because of a difference in the utilization of milk by the various handlers. If a market-wide pool is provided, all producers receive a uniform price regardless of the handler to whom milk is delivered, with differentials for such factors as location and butterfat. In some markets some form of base rating is also used in distribution of returns to producers.

COMPLIANCE AND ENFORCEMENT

One of the most significant developments in the program during the past year has been in the degree of compliance of handlers with the regulations. Many handlers appear to have reached the conclusion that this type of regulation is here to stay. In both New York and Chicago markets compliance with terms and provisions of orders has been nearly 100 percent. To a very large extent compliance has been obtained without any considerable amount of litigation.

In the Boston market current compliance is practically 100 percent. Compliance in this market has not been spontaneous or wholly voluntary. Many handlers in the Boston market had paid little or no attention to the Supreme Court's decision, while others ignored rulings of lower courts against them. Contempt proceedings and other actions were instituted against these handlers with good results.

Legal measures applied in Boston had a salutary effect in other markets. Most of the improvement in compliance evident in other markets under Federal regulation can be traced to the fact that courts have upheld the legality of the programs.

Handlers now are realizing that they cannot afford to ignore the opportunity which public hearings afford them in presenting their problems. In the past year, more than ever before, handlers have presented evidence at public hearings in support of and in objection to proposals made for regulation. They have been much more willing to assume greater responsibility in recommending changes for making the programs more effective.

NEW PROBLEMS ENCOUNTERED

Success of securing compliance also has resulted in other handlers turning to new methods to avoid the regulation. With constitutionality of the Marketing Agreement Act established, there have been more direct attacks on administration of the programs.

Handlers have become much more conscious of terminology of orders and have requested rulings on application of the orders to many of the operations peculiar to their businesses. Many of the orders have been amended to state more specifically how certain provisions should be administered by the market administrator.

There has been a considerable increase in the number of administrative hearings held under section 15A of the act because handlers have taken issue with the manner in which some orders have been applied to certain parts of their businesses. Most of these requests for hearings have presented real questions on which rulings by the Secretary needed to be made.

DIFFICULTIES IN PRICING MILK

Another significant development in the program during the fiscal year concerned the level of class 1, or fluid milk, prices established in various milk markets under Federal regulation. There has been a determined effort to keep class 1 prices in proper relation to general dairy prices. This effort was made especially difficult directly after September 1939 when speculative increases in prices took place in many other commodities following the outbreak of the European war.

Because each order issued must be approved by producers before it can be made effective, price decreases are not always easily obtained. Individual producers seldom will request or see reason for a price decrease at any time. Yet prices must decline at times in order for producers to get maximum benefit in the long run. Up until this year the problem of reducing prices or keeping prices from going higher has not been particularly acute because, for the most part, it has been necessary to raise prices.

Any attempt to reduce prices in a market involves a very difficult task in educating producers to its necessity. Without a thorough understanding of need for a reduction, producers would probably refuse to approve the change, and the Secretary would be in the position of having to suspend the program.

During the past year, hearings requested for price increases were refused if available data on production and sales indicated that a price change would not be feasible. Where producers justified a price increase because of emergency conditions, increases were granted only for a definite period of time after which they were reduced to the previous level.

The number of markets operating on a formula for fixing the class 1 price in relation to other dairy products increased during the year. This method for establishing prices appears to have some advantage as an approach to the problem of keeping fluid-milk prices in line. Thus, butter and other manufactured dairy products prices are an index of general dairy prices and also of the more general economic conditions prevailing in the country. A change in such prices usually reflects a change in general price level and indicates that fluid-milk prices should be modified.

MILK PRICE CHANGES CONSIDERED

Price of class 1 milk was one of the provisions discussed at every public hearing, except one, held in the 1940 fiscal year. Lone exception was the hearing conducted in Toledo, Ohio, where adoption of a base-surplus, or market-sharing plan, was the main subject considered. In Boston and Lowell-Lawrence, Mass.; Cincinnati, Ohio; and New York City temporary price increases were granted for winter and early-spring delivery periods. These temporary increases were deemed necessary to cover higher production costs, occasioned by drought in these milksheds during late summer which had greatly reduced the amount of home-grown feeds and feed grains. On May 1, 1940, with return of the flush production period, prices reverted to the level that prevailed previous to the increase, except in New York City where a second hearing had been held and the order had been amended a second time.

Increases of class 1 prices for an indefinite period were granted in St. Louis, Mo.; Fort Wayne, Ind.; and New Orleans, La. Increases granted were not always equal to increases requested by the producers. Record of the hearing at La Porte, Ind., showed no grounds for the increase requested by producers, and no action was taken as a result of the hearing. In Boston, Cincinnati, and Lowell-Lawrence, producers desired that increases granted following the drought be extended indefinitely, but amendments provided that

such increases be terminated on April 30, 1940. In New Orleans producers requested an increase of 10 cents in class 1 price but the hearing record failed to reveal any justification for it. The class 2 price, however, was increased 10 cents beyond the request of the producers and a new formula was adopted for pricing class 3 milk, resulting in an increase in price of that classification.

At the hearing conducted on a new marketing agreement program for Fall River, Mass., producers demanded a class 1 price of \$3.55. This price was believed to be too high on the basis of the hearing evidence, and the order finally issued contained a class 1 price of \$3.35.

At the hearing conducted in Providence, R. I., producers requested a class 1 price of \$3.50, which was the price fixed in an order of the Rhode Island Milk Control Board for that market. It was claimed that many of the dealers, especially those dealers receiving milk from outside the State, were not paying that price to their producers. The hearing record, however, indicated that such a price was above parity levels and out of relation with prices established in other Federal programs in that section.

FEDERAL-STATE COOPERATION

Cooperation with State milk-control agencies was extended during the year. The order issued for the New Orleans market was complementary to a similar order issued by the Louisiana Milk Control Board. A Federal license for the New Bedford, Mass., market was withdrawn because all milk was intrastate and could be regulated by the State. It is contemplated that the Federal licenses in San Diego, Calif., and in Battle Creek and Kalamazoo, Mich., milk markets may be withdrawn for the same reason. Milk control agencies in those States have instituted regulatory programs for these markets. The Federal programs are being continued under licenses only until these State programs are established on a firm basis.

At the close of the fiscal year, it appeared that there would be a further expansion of marketing-agreement programs for fluid milk. Preliminary steps had been taken to hold a hearing in the Shreveport, La., market. Among the many requests for aid in stabilizing marketing conditions was one for the northern New Jersey area.

Efforts are being directed continually toward studying changing conditions in each market, in order that proper adaptation might be made in the regulations. The problems that arise in connection with each market are quite varied. Many of the problems are of a legal nature and frequently involve questions without precedent. Others are economic questions which have been the object of little or no research. In regulation of milk, recognition is given to customary practices in the market.

MARKETING-AGREEMENT PROGRAMS FOR CROPS

Marketing-agreement programs in effect for various crops totaled 18 during the 1940 fiscal year. Of this number, 15 were in actual operation. Programs in effect related to 17 individual commodities.

Farm products under marketing-agreement programs were pro-

duced by more than 90,000 growers in different sections of the country. Farm value of these commodities approximated \$150,000,000. Of the programs in effect, 8 were for fresh fruits, 6 for truck crops, and 1 each for package bees and queens, walnuts, hops, and tobacco.

TABLE 11.—*Approximate number of growers and estimated farm value of commodities under marketing-agreement programs, fiscal year 1940*

Marketing-agreement program	Number of growers	Farm value (1,000 dollars)
California-Arizona oranges and grapefruit ¹	20, 000	62, 000
Florida citrus ¹	20, 000	32, 000
Texas citrus ¹	7, 000	9, 000
Northwest fresh prunes (Oregon and Washington) ¹	600	400
Pacific coast fall and winter pears (other than California Hardys) ¹	3, 000	2, 900
California Hardy pears ¹	500	500
California fresh Bartlett pears, plums, and Elberta peaches ¹	7, 500	9, 400
Colorado peaches ¹	600	1, 250
Pacific coast walnuts ¹	14, 300	9, 950
Pacific coast hops ¹	950	8, 775
Western Washington lettuce, peas, and cauliflower	1, 300	1, 050
Colorado peas and cauliflower ¹	250	1, 100
Colorado onions ¹	1, 050	800
Utah onions ¹	180	150
Mississippi tomatoes	2, 750	550
Watermelons (Florida, Georgia, North Carolina, and South Carolina) ¹	10, 000	2, 900
United States package bees and queen bees	225	350
Connecticut Valley shade tobacco ¹	50	6, 900
Total programs in effect	90, 255	149, 975
Total programs in operation	85, 980	148, 025

¹ Operative during the fiscal year 1940.

Each marketing-agreement program for crops in general provides for an administrative agency, and for issuance of regulations to govern handling of the commodity, or shipments out of the defined producing area. The administrative agency consists of growers and handlers named from among nominees elected by the respective groups. This body is responsible for recommending regulations to be issued by the Secretary of Agriculture under the program. Regulations which may be issued are governed by limitations prescribed by the marketing agreement and order and by the Marketing Agreement Act. They may vary with conditions both in the producing area and in the markets.

PROGRAMS IN OPERATION

Of the marketing-agreement programs in effect during the 1940 fiscal year, two operated for the seventh consecutive year. These related to walnuts grown in California, Oregon, and Washington, and to oranges and grapefruit produced in California and Arizona. Both programs, originally provided by marketing agreements and accompanying licenses, were first developed under the Agricultural Adjustment Act of 1933 and subsequently shifted to a marketing agreement and order basis in keeping with the act as amended in 1935.

Marketing-agreement programs for watermelons produced in the Southeastern States of Florida, Georgia, North Carolina, and South Carolina, and for Colorado peas and cauliflower operated for the fifth season.

Following a short period of operation at the close of the 1938-39 season, the Florida citrus marketing agreement program operated throughout this past year.

Programs for California, Oregon, and Washington hops and for fresh prunes in Washington and Oregon were operated for the second consecutive season.

The marketing-agreement program for California fresh Bartlett pears, plums, and Elberta peaches went into effect in May 1939. It replaced an agreement and order which were terminated following the 1937 season after operating two seasons and supplanting an agreement and license program which had been in effect for the 2 previous years, 1934 and 1935. These latter programs included a number of other commodities, among them Beurre Hardy pears and so-called winter pears.

During the summer months of 1939 a separate program was developed and placed in effect for California Hardy pears and another program, embracing winter pears grown in California as well as Oregon and Washington, was instituted. Both of these were operated during the entire marketing season this past year.

The Colorado peach and onion agreements and orders, new programs instituted this past year, operated throughout the 1939 season.

A marketing-agreement program for Utah onions, which was issued during April 1937, operated for the first time during the 1939 season.

PROGRAMS TERMINATED

Three marketing-agreement programs were terminated this past fiscal year. One was for lettuce, peas, and cauliflower grown in western Washington, another for package bees and queen bees, and the third for Texas citrus fruit. The western Washington vegetable agreement had been inoperative for several seasons. At the request of the industry committee charged with administering the program, it was terminated. The Texas citrus marketing agreement and order was issued during July 1937 and operated throughout the 1937-38 and 1938-39 seasons and during the fore part of the 1939-40 season. This program was terminated following a hearing during the summer of 1939 on a new program proposed by various groups in the industry. The subsequent referendum among growers disclosed a lack of adequate interest and support to warrant continuing the old program in effect or to issue a new one.

In addition to programs terminated, the marketing agreement program for Southeastern watermelons was suspended for the 1940 season in accordance with requests from growers and handlers. Growers and others desired to experience a season without regulations before arriving at a final decision regarding the advisability of revising the present program or requesting its termination.

HEARINGS ON PROPOSALS

Public hearings were conducted this past year on eight new proposed marketing agreements and orders. Proposals included Washington and Oregon apples, California Tokay grapes, Utah peaches, hops grown in Pacific Coast States, Texas citrus fruit, California cauliflower, Colorado onions, and Idaho and Oregon onions.

Reference has already been made to disposition of the new program proposed for Texas citrus. The hops program was developed by the industry to succeed the agreement and order which had been in effect for two seasons, and which had been limited by statute to a 2-year period of operation. Hearings on the hops agreement and order were conducted during March 1940, and, at the close of the fiscal year, the new program had been tentatively approved by the Secretary and submitted to growers for approval and to handlers for signature. Tentative approval also was given to marketing agreement programs for Washington and Oregon apples, California Tokay grapes, and Utah peaches, and the programs were before growers and handlers for acceptance at the close of the fiscal year. Following public hearing on the proposed marketing agreement and order for California cauliflower, no further action was taken owing to lack of adequate evidence supporting the program proposed for the hearing. Because of inadequate grower approval in a referendum conducted on the Idaho and Oregon onion program, no agreement or order was issued.

VALUE OF PROGRAMS RECOGNIZED

Growers and handlers, especially growers, now have a clearer understanding of the purpose and objective of marketing agreement programs. This became plainly evident during the year in the course of work with industry groups in developing new programs, revising and amending those already in effect, and supervising the administration of those in operation. Advantages and limitations of marketing agreement programs are more definitely recognized by industry groups, and both growers and handlers have a better working knowledge of requirements for effective administration upon which operating results depend.

It is now apparent that growers are taking greater advantage of the opportunity which marketing agreement programs provide in analyzing marketing problems confronting them and in developing more effective measures in solution. Growers' lack of an adequate appreciation of their marketing problems has in the past been an important obstacle to extending applicable and effective assistance through marketing programs.

ENFORCEMENT ACTIVITIES

The 1940 fiscal year also marked the first time that criminal provisions of the Marketing Agreement Act were employed in enforcement activities relating to fruit and vegetable marketing agreement programs. Previously, civil action had been relied upon to gain compliance with regulations of the Secretary issued pursuant to a particular marketing agreement and order. As time passed this approach proved to provide insufficient restraining influence on certain types or classes of handlers in particular situations.

First criminal action was taken during operation of the Southeastern watermelon program. Similar action was followed under the Florida citrus marketing agreement program and the California-Arizona citrus program. Assessment of a fine by a court on a violator has proved to be a very effective inducement to compliance in all areas where such action has been employed.

During prior years a general skepticism among growers, and particularly private independent handlers, existed regarding legal validity of marketing-agreement programs. This attitude was further aggravated by administrative difficulties encountered in extending timely and effective enforcement measures. This past year evidenced a definite passing of such an attitude on the part of handlers in practically all areas in which programs were operated and for which new proposals were considered. Favorable decisions of the Supreme Court in the New York and Boston milk-order cases and more aggressive enforcement action undoubtedly contributed to the change.

IMPROVING MARKETS FOR INDIVIDUAL FARM PRODUCTS

Through surplus removal and marketing agreement programs, agriculture has been in a stronger position to adjust itself to changes which have taken place during the 1940 fiscal year. These measures have supplemented other phases of the national farm program of which they are an integral part.

The combined operations under surplus removal and marketing-agreement programs have directly affected the incomes of all dairy farmers, poultrymen, fruit and vegetable growers, wheat and cotton producers, and many other growers of specialty crops. Benefits to consumers also have been direct. Stability which these programs brought to markets for agricultural commodities provided assurance for continued adequate supplies of food and fiber for consumers. Billions of pounds of surplus farm products bought for distribution to the needy served the broad public interest as well.

MARKETING ACTIVITIES IN THE DAIRY INDUSTRY

In the dairy industry, surplus-removal and marketing-agreement programs enabled farmers during the 1940 fiscal year to deal more effectively with difficult problems growing out of an all-time high in milk production. Producers' markets for milk were stabilized and their returns improved through 27 marketing-agreement programs for fluid-milk markets and two programs for evaporated-milk and dry skim-milk industries. Additional aid to improve selling conditions and incomes of dairy farmers was extended through surplus removal activities for butter, cheese, evaporated milk, dry skim milk, and fluid milk.

Total cash farm income from milk and butterfat sold by about 4,000,000 farmers was \$1,410,000,000 in the 1939-40 May-April marketing season. This was an increase of 13 percent over the 1938-39 season income and represented a large improvement over the depression low of under a billion dollars in 1932.

Farm price of butterfat in 1939-40 averaged 26 cents per pound, an increase over the 1938-39 average of 24.4 cents.

PRODUCTION SETS RECORD

Milk production in 1939-40 reached a record of 109,000,000,000 pounds. It was slightly larger than the 1938-39 volume and more than 5,000,000,000 pounds greater than the corresponding 5-season average of the period 1934-35 to 1938-39. About 49,000,000,000 pounds of milk were used in the principal manufactured dairy products. This vol-

ume was not quite so large as the record volume in 1938-39, due largely to an apparent increase in consumption of fluid milk and other dairy products, but it was nearly 3,000,000,000 pounds greater than the 5-season average volume used for these products.

After declining for several years, the number of milk cows has been increasing at the rate of about 1 percent per year since 1938. On January 1, 1940, there were 25,334,000 milk cows and heifers, 2 years old and over, compared with the record number of 26,931,000 on January 1, 1934. The current number is about in line with the long-time upward trend. Relatively large numbers of young stock on hand indicate a probable continued increase in the number of milk cows.

Domestic consumer demand conditions averaged somewhat better in 1939-40 than in 1938-39. Although prices of dairy products averaged somewhat higher than in the preceding season, the 1939-40 price level was a reasonable one for consumers. This is evidenced by the record volume of the principal manufactured dairy products which as a group moved into consumption through regular trade channels, exclusive of quantities distributed or otherwise made available to needy families by surplus removal programs.

AID THROUGH PROGRAMS

During the 1940 fiscal year surplus removal and related programs for dairy products included the stamp plan, butter-loan program, purchase and relief distribution programs, low-cost milk-distribution program, and the Canal Zone butter export program.

Principal aim of these activities has been to increase and broaden demand for dairy products. The programs also have been aimed at problems of seasonal surpluses and widely fluctuating prices, with a view to encouraging orderly marketing of dairy products and a reasonable degree of short-time and seasonal stability in market prices to producers.

Rather marked seasonal variation is characteristic of dairy production due to the importance of summer pastures as a dairy feed. A large quantity of milk and butterfat sold by farmers in the summer is manufactured and stored for marketing during the winter period of comparatively light production. Wide seasonal price swings with unduly low prices in the summer tend to reduce the total returns to producers for the season as a whole. Consumers also have an interest in moderate rather than large seasonal variations in prices and consumption.

DEALING WITH SURPLUSES

Principal activities under programs dealing with surpluses of dairy products during the 1940 fiscal year may be summarized as follows: (1) Butter continued on the list of designated surplus commodities under the stamp plan throughout the year; (2) seasonal stability of dairy products prices was encouraged through purchase, storage, and sale of butter under the butter-loan program, all butter carried over under the 1938-39 loan program and that acquired under the 1939-40 loan program was disposed of either through relief distribution or through sales to the trade, and all loans were repaid; (3) purchases of butter and other dairy products were made for

distribution to needy families; (4) the low-cost milk program for increasing the consumption of fluid milk among needy families was developed further and expanded; and (5) the Panama Canal Zone butter export program was continued during the early part of the fiscal year.

SURPLUSES REMOVED FROM MARKETS

During the 1940 fiscal year, a total of \$18,405,772 was expended under the programs for increasing consumption of milk and its products. Quantities of dairy products acquired for relief uses under all programs included the following: Over 41,000,000 pounds of butter, nearly 66,000,000 pounds of evaporated milk, over 4,000,000 pounds of cheese, 5,000,000 pounds of dry skim milk, and nearly 40,000,000 quarts of fluid milk. The 41,000,000 pounds of butter acquired during the 1940 fiscal year compare with over 122,000,000 in the 1939 fiscal year.

Of the 41,000,000 pounds for the 1940 year, 18,000,000 came from stocks obtained in the previous year by the Dairy Products Marketing Association, an organization of producer cooperatives operating with Commodity Credit Corporation loans for the purpose of stabilizing prices for dairy products through buying and selling. Thus a net quantity of 23,000,000 pounds of butter came from 1939-40 production. This compares with 140,000,000 pounds taken off the markets from 1938-39 production through purchases for relief use and by the Dairy Products Marketing Association. Part of the butter acquired under the 1938-39 programs was distributed for relief purposes in 1939-40. Quantities actually distributed totaled 103,000,000 pounds in 1938-39, and 60,000,000 pounds, including stamp-plan purchases, in 1939-40.

BUTTER UNDER THE STAMP PLAN

Butter was on the stamp-plan list of surplus commodities throughout the 1940 fiscal year. About \$2,960,000 in blue stamps were used by families participating in the stamp plan to buy 9,408,000 pounds of butter from retail stores. As this program was expanded, estimated quantities of butter purchased with blue stamps increased from 171,000 pounds in July 1939 to about 1,600,000 pounds in June 1940. During the last few months of the fiscal year, about 18 percent of all blue stamps was used for that product. On the basis of the contemplated scale of operation of the stamp plan, blue-stamp purchases of butter per month in the 1941 fiscal year may average more than twice the June quantity if dairy conditions warrant continuation of that product on the surplus list.

While the stamp plan probably will be the method used for handling part of the butter surplus during the 1941 fiscal year, it is contemplated that this will be supplemented by butter-loan program operations and purchase and relief distribution activities, which offer advantages in dealing with the problem of seasonal surpluses and price stabilization.

Advisability of including other dairy products on the blue-stamp surplus list has been considered. However, it has been necessary to recognize the limitations as to total funds available for surplus removal and related programs, and it has been felt that in general dairy farmers as a group would be benefited most by handling the dairy surplus largely in the form of butter. It represents the principal dairy

product in terms of volume of milk used and its price largely affects the level of all dairy products prices. Changes in production and prices of other dairy products tend to correspond closely with changes in production and prices of butter; and farm prices of milk and butter-fat used for manufactured dairy products are generally based directly or indirectly on the central market quotations for that product.

Supplementary purchases and relief distribution of other manufactured dairy products have been made from time to time when it appeared that their supplies were relatively large and their prices were relatively low compared with butter. For assisting in maintaining adjustments in supplies and prices among dairy products, the purchase and distribution method appears advantageous.

Requests have been received for inclusion of fluid milk in the stamp plan. In general, it has appeared that the maximum volume of dairy surplus per Government dollar expended could be handled in the form of manufactured dairy products. However, recognizing the importance of milk to undernourished persons, particularly children, an effort has been made to develop a satisfactory low-cost milk program for increasing consumption among these needy people.

BUTTER-LOAN PROGRAM

A butter-loan program was operated in 1939-40 for the second season as a part of the general surplus removal and stabilization program for dairy products. While the loan program has been primarily a stabilization plan, it has been very closely coordinated with the purchase and relief distribution program.

As far as purchases are concerned, market stabilization can be accomplished equally well through purchases for relief distribution and through purchases under a loan program by varying the quantities bought at any particular time in accordance with market conditions. However, extensive purchases in markets under a relief purchase program frequently would involve the storage of part of the supplies acquired in order to facilitate orderly relief distribution. Furthermore, products acquired under such a program are scheduled for relief distribution and are not available for resale in the markets at higher price levels. The loan program has introduced this resale feature into stabilization activities. Resale provisions have represented a means of discouraging prices from going lower in the summer or higher in the winter than was warranted by the general supply and demand situation. While assuring producers and the trade that butter held under loans would not prevent a reasonable seasonal increase in prices, resale provisions also have assured consumers of adequate winter supplies at reasonable prices.

COOPERATIVE ASPECTS

The loan program continued to operate through the Dairy Products Marketing Association. This organization was established for that purpose as a nonprofit corporation with a membership of eight regional dairy marketing cooperatives representing many local producer-owned and producer-controlled cooperatives in the major dairy products producing areas.

The participation of the association in the loan program has been in accordance with the policy of the Department of Agriculture for

encouraging farmers and their leaders to take an active part in studying farm problems and in planning and operating the farm programs. Board of directors of the association has included a representative of each of the regional member cooperatives. Directors have met from time to time to review developments in the dairy situation, to consider problems of dairy surpluses and market stabilization, to study possibilities and limitations of surplus removal and related programs for improving returns to producers, and to develop and recommend advisable plans. These recommendations, together with those received from other representatives of the industry, have been increasingly helpful in analyzing the current and prospective developments in supply, demand, and price conditions and in formulating and operating programs for the dairy industry.

Butter-loan program was adopted under provisions of section 302 (a) of the Agricultural Adjustment Act of 1938, as amended, which authorizes Commodity Credit Corporation loans on agricultural commodities under terms and conditions determined by the Secretary of Agriculture and approved by the President.

PROVISIONS OF THE LOAN PROGRAM

The 1939-40 program contained the following provisions: (1) Commodity Credit Corporation loans to the Dairy Products Marketing Association of up to \$6,000,000 for purchase and storage of up to 25,000,000 pounds of butter; (2) basic loan rates equal to purchase prices specified from time to time by the Secretary of Agriculture, but not to exceed 75 percent of the parity price, plus additional loan advances for storage and operating costs; (3) notes of the Association secured by warehouse receipts representing the butter as collateral for the loans; (4) provision that the butter would be available for resale to commercial trade at prices representing a reasonable seasonal increase, but not less than the purchase prices and all storage and operating costs; (5) provision that the butter might be resold to the Federal Surplus Commodities Corporation for relief distribution; and (6) provision that, if sales proceeds exceeded the amount needed to repay the loans and for operating costs, such excess funds would constitute a reserve to be used for future operations or turned over to the Federal Surplus Commodities Corporation in the form of dairy products for relief distribution.

Terms and conditions of the program established procedure to be followed in purchasing and selling the butter and also provided that, within the general limitations of the program, actual purchase and selling activities of the association were to be directed by the Secretary of Agriculture or his representatives in the Department. Procedure in directing purchase activities was substantially similar under the butter-loan program and relief-purchase program.

Under both programs purchases were made on the mercantile exchanges where transactions apparently have a major influence on market prices. These purchases were conducted through contractual arrangements with cooperative organizations which were members of the exchanges. Daily instructions were issued by the Secretary's representatives in the Department directly to the cooperatives' representatives at the openings of the trading periods on the exchanges. This procedure was followed as it was believed to be

consistent with responsibilities of the Secretary in administering programs authorized by and operated with funds appropriated by Congress.

LOAN-PROGRAM ACTIVITIES

Because of the substantial quantity of butter on hand pending relief distribution and uncertainties until the beginning of the 1940 fiscal year as to funds that would be available for surplus removal programs, it was necessary to suspend purchase activities toward the end of the 1938-39 season and to delay somewhat the activities under the 1939-40 programs. Furthermore, the 1939-40 dairy outlook was for a production and demand situation not much different from that of the previous season when dairy production continued large throughout the season and dairy products prices showed relatively little seasonal variation. Considering the outlook, as well as the possibility that only very limited program activities could be conducted, it appeared that a slightly lower price level during the into-storage period of the 1939-40 season would be consistent with a reasonable seasonal price variation.

Under the 1938-39 loan program the association purchased and stored 114,136,775 pounds of butter, using loans of \$31,646,113.30. Substantially all of it was resold to Federal Surplus Commodities Corporation from September 1938 to November 1939 for relief distribution, and the loans were retired.

Under the 1939-40 loan program the association purchased and stored 12,836,046 pounds of butter, using loans of \$3,288,326.53. Most of these purchases were made during August 1939, and aided in maintaining a price level, based on 92-score butter at Chicago, of about 23.5 cents per pound. This level was about 2 cents below a year earlier.

Market prices subsequently showed a substantial seasonal increase and, in accordance with provisions of the program, it was announced in November that butter held in storage under loans was available for resale at a schedule of prices based on 30.25 cents for 92-score butter at Chicago. During January and early February of 1940 the association sold to the trade 8,811,398 pounds on that basis. This action had a stabilizing influence by discouraging what had appeared to be a pending further sharp price rise to levels which the general supply and demand situation could not have supported.

ADDITIONAL PURCHASES MADE

During February prices declined sharply to about 28 cents. At that time the association had disposed of all of the loan butter except a small quantity in New York. In order that there also might be some butter under loans and available for resale in Chicago for possible stabilization purposes during the remainder of the storage year, the association began purchasing butter in Chicago in late February while the Federal Surplus Commodities Corporation began purchasing in New York. After the association had purchased 717,000 pounds, the Federal Surplus Commodities Corporation also took over the purchasing in Chicago in early March.

By April 30, 1940, the end of the storage year, the association had turned over the balance of the loan butter to the Federal Sur-

plus Commodities Corporation for relief distribution and had retired all of its loans.

1940-41 LOAN PROGRAM

A loan program for the 1940-41 May-April storage season has been approved. It authorizes loans of up to \$7,000,000 for the purchase, storage, and sale of up to 25,000,000 pounds of butter. The provisions are substantially similar to those of last season's program. No purchases had been made under the new program up to the end of June. With the help of some purchases in the markets by the Federal Government for current relief distribution, market prices were maintained at levels that appeared reasonable in the light of current and prospective conditions.

PURCHASES OF BUTTER FOR DISTRIBUTION

Through its authorization to purchase butter for relief distribution during the 1940 fiscal year, Federal Surplus Commodities Corporation was in a position to take over any butter held or placed under loans by Dairy Products Marketing Association, and to make some additional purchases in the markets. The Corporation acquired during the fiscal year nearly 31,700,000 pounds of butter. This total included about 17,900,000 pounds of 1938-39 season butter held on July 1, 1939, under loans by the association, 14,000,000 pounds of that stored under loans during 1939-40, and 9,800,000 pounds purchased by the Corporation directly in the markets. The total quantity acquired, together with 20,634,000 pounds that the Corporation and State relief agencies had on hand at the beginning of the fiscal year (less 2,153,000 pounds that they had on hand at the end of the year), and approximately 9,408,000 pounds purchased with blue stamps, made a total of nearly 60,000,000 pounds of butter available to needy families during the fiscal year.

With the butter-loan program in operation, no purchases were made in the market during the year until late in February 1940. Market purchases during the remainder of the fiscal year aided in preventing more than a moderate seasonal decline in butter prices from about 28 cents in March to 26.3 cents in June based on 92-score butter at Chicago. The June price was 2.6 cents above a year earlier.

PLANS FOR ANOTHER YEAR

At the close of the 1940 fiscal year plans were being made for dairy product surplus removal activities in the 1941 fiscal year. Provision was made for taking over any butter that may be stored under loans by the Dairy Products Marketing Association but not resold to the trade, or to purchase butter directly in the markets for relief uses. It is contemplated that the policy will be continued of limiting combined volumes of butter removed from market during the fiscal year under the loan program and relief purchase program to the quantity which may be readily distributed for relief consumption and school-lunch programs.

During the early part of the 1940 fiscal year, butter was distributed 000,000 pounds per month. By autumn most of the stocks on hand for relief consumption and school lunches at the rate of about 10,-

had been distributed and rate of distribution was decreased. Butter acquired during the remainder of the fiscal year was used largely for school lunches.

CHEESE-PURCHASE OPERATIONS

While butter and cheese prices in recent years have continued to show approximately the long-time average relationship, cheese production has increased relative to butter production. During the 1939-40 May-April season, total cheese production was 700,000,000 pounds or slightly less than the record production of the preceding season. Allowing for trend, this volume was in approximate adjustment with supplies of other principal dairy products. The 1939-40 season average price of cheese (twin style) on the Wisconsin Cheese Exchange was 13.75 cents per pound, or about 2 cents higher than in 1938-39. Monthly prices during the season were slightly more favorable than butter prices.

Cheese production was at record, or near record, volume during the spring months of 1940 and by early summer cheese stocks were large. To help relieve pressure of large supplies on the markets, 4,283,970 pounds of American cheese were bought in June to be donated for relief distribution and school lunches. These purchases were made in 17 States on the basis of offers submitted by manufacturers and handlers following two announcements that such offers would be considered. Purchase prices, varying somewhat by regions and styles of cheese, ranged from 13 $\frac{1}{4}$ to 16 $\frac{1}{2}$ cents per pound. Condition of purchase under the second announcement permitted deliveries to be made over a period extending to the end of August.

EVAPORATED MILK BOUGHT

Evaporated milk production (case goods) during the 1939-40 May-April season totaled 2,282,000,000 pounds. This was a record volume and represented a continuation of the upward trend of recent years in evaporated milk production relative to butter production. Manufacturers' wholesale selling prices of evaporated milk at distributing points for the season averaged \$2.82 per case, or 10 cents per case above the previous season.

During the spring of 1940 evaporated-milk production and stocks were by far the largest on record and prices declined. In June 1,515,000 cases of evaporated milk were bought for relief distribution and school lunches. Purchases were made in 17 States on the basis of offers submitted in response to two announcements that offers would be considered. The purchase prices ranged from \$2.03 to \$2.50 per case, f. o. b. plant. The condition of purchase at the time offers were accepted under the second announcement provided that deliveries could be made over a period extending through the middle of August. However, the British Purchasing Commission soon requested offers from the industry for immediate delivery of evaporated milk. To enable manufacturers to fulfill such orders, arrangements were made to extend the delivery period on relief purchases if requested to do so by the manufacturers.

DRY-SKIM-MILK PURCHASES

Production of dry skim milk in the 1939-40 May-April season totaled 343,000,000 pounds, the lowest in four seasons and substantially smaller than the record 1938-39 volume of 440,000,000 pounds. Wholesale selling prices of dry skim milk for human consumption averaged for the season 6.9 cents per pound, f. o. b. factory, or 1.8 cents above the previous season. However, the dry-skim-milk situation changed greatly during the 1939-40 season. Production was light and sales were fairly good during the first part of the season. While stocks were declining, prices increased from the low level of 4.8 cents in May 1939 to 9.4 cents in December. Relatively high prices in early winter encouraged production and discouraged sales, and prices declined sharply during the late winter and spring. Manufacturers and handlers were requested to submit offers to sell, and on the basis of offers submitted during May and June 4,980,800 pounds were bought in 11 States. These purchases were made at prices ranging from 5 to 6.75 cents per pound.

DEVELOPING A NEW OUTLET

Outlet for dry skim milk has been almost entirely in the commercial manufacture of prepared foods and for animal feed. Development of the retail outlet for dry skim milk appears to represent one of the principal opportunities for enlarging the market for dairy products.

Quantity of skim milk now retained on farms, where it is fed to livestock or wasted, amounts to billions of pounds. However, the industry for many years has been shifting from farm to factory separation and this undoubtedly will continue, at least as rapidly as commercial outlets can be found for the skim-milk products at prices that will return to producers as much or more than could be realized by feeding on farms.

Purchase and relief distribution of dry skim milk not only contributed important food nutrients for better diets for the undernourished, but also acquainted consumers with home uses for the product. This has helped in developing a potential demand for dry skim milk. Some efforts already have been made by the industry to sell dry skim milk through stores in retail packages. However, this development is still in the pioneering stages.

LOW-COST MILK PROGRAM

Until October 1937, only manufactured dairy products were purchased under surplus removal programs. In that month, however, a program was inaugurated for buying fluid milk for relief distribution to supplement operations under the marketing agreement program for the Boston, Mass., milk-marketing area. Under this supplementary program, milk was bought by the Federal Government and donated to welfare agencies in the Boston area. These agencies paid 2 cents per quart to cover the cost of processing, pasteurizing, bottling, and delivery to relief distribution stations by handlers.

In the summer of 1939 Congress authorized a somewhat broader means for increasing the use of agricultural products through indemnity or other payments. This made it possible to modify the mechanics of the relief milk program in the Boston area. The modified program made it possible for needy families to buy milk at low cost, instead of having it given to them. Handlers received a Federal indemnity payment in connection with the sale of this milk through the welfare agencies.

PRODUCERS AND CONSUMERS BENEFIT

Purpose of the low-cost milk program is to increase returns to producers by diverting to fluid uses milk that otherwise would be utilized in lower-priced surplus classes. This has made large quantities of milk available at small cost to needy families who otherwise would be unable to purchase fresh milk because of its high retail cost.

Success of the program in Boston led to adoption of similar programs in Chicago, Ill.; New Orleans, La.; and Washington, D. C. It is expected that during the coming year programs will be inaugurated in other markets. Where the low-cost milk program is in effect, it supplements operations under the marketing agreement program in the area. This provides assurance that benefits of the program which are intended for producers will be reflected to them in full.

Success of the low-cost milk program depends on the cooperation of local relief agencies, handlers, and producers. For milk distributed under the program, the producer receives an established price, below the class 1, or fluid price, but above the class 2, or surplus price. In virtually all of the milk marketing agreement programs now in effect, a special price is provided for milk so utilized. The milk is processed, bottled, and delivered through competitive bids from handlers. So far payments for these services have been far below the margin received in their regular fluid-milk business. Local agencies provide the distribution stations and in some instances contribute to the cost of the milk. Instead of receiving milk free, as under the Boston purchase program, recipients pay around 5 cents per quart.

NICKEL MILK IN BOSTON

Under the low-cost milk program in effect during the 1939-40 fiscal year in the Boston marketing area (Manchester, N. H., and Burlington and Wilmington, Mass., though not in the marketing area, are participating in this program), milk was distributed to eligible recipients from approximately 100 relief stations maintained by local relief agencies. Persons receiving direct relief paid 5 cents per quart and private charities and persons employed by W. P. A. paid 7 cents per quart for milk purchased. Remaining costs were borne jointly by the Government and by relief agencies.

A Federal subsidy was paid to handlers on each quart of milk distributed. This payment represented the difference between the amount paid the producer, as provided in the Boston milk marketing agreement program, and the 5-cent selling price. Prior to May 1, 1940, this subsidy amounted to 1.837 cents per quart on milk received by handlers at a plant not located at a railway delivery point, and 1.7295 cents on milk received at a plant located at a railway delivery

point. Amendments to the marketing-agreement program, which became effective on May 1, provided for a reduction in the producer price of milk used in the low-cost milk program. Amounts of the Government's subsidy subsequent to that date were 0.72 cent and 0.33 cent, respectively. In Manchester the producer price is determined by the New Hampshire Milk Control Board. With the exception of the months of February, March, and April, the amount of the Government's payment on milk delivered in Manchester has been 1.249 cents. During the period February 1 to April 30, the payment amounted to 2 cents per quart.

Cost of processing, bottling, and delivering milk was borne by local relief agencies. Exact amount of these payments was determined on a basis of competitive bidding. Under the first awards, effective to December 30, 1939, these costs ranged from 0.9 cent to 2 cents per quart and averaged 1.39 cents per quart. On January 4, 1940, new contracts were issued. The accepted bids ranged from 1.12 cents to 2 cents per quart, but averaged 1.31 cents per quart or 0.8 cent lower than during the previous period.

To the end of June 1940 Federal payments totaling \$305,337 had been made to handlers on 19,064,921 quarts of milk sold under the low-cost milk program in the Boston area.

OPERATIONS IN CHICAGO

A low-cost milk program became effective in November 1939 in Chicago, Ill. This program differs in many respects from the one in Boston. Because of the scattered nature of the relief population, a system of delivering milk to homes was instituted. However, in those areas where the relief population is concentrated and distribution through stations seemed feasible, that method of distribution was retained.

The program is operated in cooperation with the Commissioner of Relief for the city of Chicago. In addition to issuing cards to all eligible recipients and providing distribution stations, the office of the Commissioner bears a large part of the cost of the milk, paying 5 cents per quart on milk delivered to homes and 4 cents per quart on milk delivered to stations. Federal subsidy to handlers amounts to the difference between the sum contributed by the city of Chicago and cost of the milk, bottled, processed, and delivered either to homes or to stations.

On milk delivered to stations the subsidy paid is determined on a basis of competitive bidding. Prior to February 1, 1940, this amount ranged from 1 cent to 1.49 cents per quart, and averaged 1.47 cents per quart. On February 1, new contracts were awarded on the basis of bids received in January. Payments under these contracts ranged from 0.9 cent to 1 cent and averaged 0.98 cent per quart.

Prior to March 1, 1940, subsidy on home-delivered milk also was determined through competitive bidding. These awards ranged from 2 cents to 2.5 cents per quart and averaged 2.42 cents. This method of awarding contracts was not as satisfactory as had been anticipated because of various administrative difficulties encountered. In order to alleviate some of these difficulties and at the same time make it possible for a larger number of handlers to participate, the

program was amended, effective March 1. Instead of awarding contracts on bids, a flat rate of payment of 2.3 cents per quart was established. All handlers who wished to participate at that figure were invited to signify their willingness to do so, and to state the maximum number of quarts they could deliver each day in each relief area. Relief clients were then allowed to choose the handler they wished to deliver milk to them. This arrangement proved much more satisfactory than the previous bid plan.

PENNY MILK IN SCHOOLS

Under the program in Chicago, about 100,000 quarts a day were distributed to approximately 71,000 relief families. On June 3, 1940, this program was supplemented by a school milk program. The plan was inaugurated in 15 elementary schools located in those areas of the city having the largest relief loads. Under this program, children in these schools could purchase milk in half-pint bottles at 1 cent per half pint. In addition to the amount paid by the children, the handler received a subsidy of 0.74 cent for each half pint of milk sold.

This low cost school milk program was reasonably successful during the short time it was in operation. During the 1940-41 school year this experiment may be extended to other schools.

LOW-COST MILK IN NEW ORLEANS

In May 1940 a low-cost milk program was inaugurated in New Orleans, La. As in Boston, all milk sold under the program was distributed through stations provided by the New Orleans Welfare Department. The person receiving the milk paid 5 cents per quart and Federal subsidy to handlers equaled the difference between that amount and cost of processed milk, bottled and delivered to stations. Awards under accepted bids from handlers called for payments ranging from 1.7 cents to 2.75 cents per quart. About 29,700 relief families received an average of about 12,000 quarts of milk daily.

MARKETING ACTIVITIES FOR CROPS

Surplus removal and marketing-agreement programs made available to growers of specialty crops such as fruits and vegetables a variety of approaches for dealing with marketing problems which differ widely from commodity to commodity.

Compared with some of the leading basic crops, it is interesting to note that during recent years farm income from fruits and vegetables has exceeded farm income from both cotton lint and cottonseed. Moreover, tree fruits have contributed a larger aggregate cash farm income than corn or tobacco. Truck crops for fresh market and processing have been equally important.

The fruit and vegetable industry of this country has been outstanding in its steady expansion of acreage and production over the past two decades. The 1939 season was no exception to the historical trends which have characterized the various fruit and vegetable crops. Volume of fruit produced was exceeded only by the record output of 1937, with increases in the supply of practically all major fruits.

Production of truck crops for fresh market also assumed record proportions, although the crop of vegetables for canning was considerably smaller than the production of recent years.

Improvement which took place during the 1939-40 year in the domestic demand situation assisted greatly in marketing the record supplies. However, for many crops, particularly for a number of fruits, threatening hostilities in Europe followed by active warfare, seriously complicated the marketing season. Direct or indirect effect of these conditions was experienced throughout the fruit and vegetable industry.

PROGRAMS FOR FRESH FRUITS

In the fresh-fruit field eight marketing-agreement programs and nine surplus-removal programs operated during the 1940 fiscal year. In addition four individual fruits were included on the list of surplus commodities available under the stamp plan. Producers of several fruit crops were confronted with a problem similar in character arising out of bountiful supplies, but intensity of individual problems varied considerably from one crop to the other. A brief review of those programs carried out this past year for fruit crops clearly portrays the heterogeneous nature of problems which confronted fruit producers.

AID TO APPLE GROWERS

Apples represent the principal tree fruit produced in the United States. While this product is grown in every State, it represents an important commercial crop in 38 States. With such an extensive area of production, producers are naturally confronted with important obstacles to developing marketing programs designed to improve returns from their product. A multiplicity of varieties and wide variation in marketing methods and practices add to the problem of aiding the apple grower.

For the 1939 season the commercial apple crop, representing those apples sold for fresh consumption, amounted to 100,000,000 bushels, compared with an average of 90,000,000 bushels for the previous 6 years. During this recent period an average of 10,500,000 bushels was exported, principally to Great Britain and North European countries. At the beginning of the 1939 season it appeared reasonably certain that the export market for apples would be contracted as a result of the unsettled situation in Europe. This anticipation, and the fact that even with normal exports growers would be left with supplies considerably in excess of average domestic fresh-fruit marketings for the past several years, prompted development of a program which would involve direct Federal assistance in diverting at least a part of the excessive supplies from regular commercial markets.

INDUSTRY SUGGESTS PROGRAM

Grower representatives from all major midwestern and eastern apple-producing States met in Washington, D. C., September 14-15, 1939, and, after a review of the marketing prospects for the 1939 apple season, the following recommendations were made: (1) That no fruit below United States No. 1 grade, nor any fall varieties of apples, be stored; (2) that apple growers transfer approximately 10,000,000

bushels of less desirable grades from fresh consumption channels into commercial byproducts or other outlets; and (3) that purchases of surplus apples for relief distribution be confined to a quantity of apples from individual growers equivalent to that transferred from fresh sales to other outlets. Moreover, these representatives recommended that a committee be established to develop a long-time program to cope with marketing problems resulting from large crops, and to improve the quality of apples offered for sale in fresh form by removal of cull and low-grade fruit.

Following this conference a Nation-wide apple-purchase program was instituted. From its inception during the first week in October until December purchases were made from growers in proportion to the quantity of apples they diverted from fresh sales to other outlets.

On December 14 and 15, 1939, apple growers and extension specialists representing apple growers in all major producing States attended a second conference to discuss and make recommendations relative to the current apple-purchase program and resume discussion on the long-time program that was proposed at the October meeting. Growers urged that the purchase program be continued into the winter months, but that requirements for diversion of a bushel of apples for each bushel sold for relief use be discontinued for the balance of the season. Following the conference, the suggested change in procedure was adopted with the continuation of purchases.

The December conference also made recommendations on a long-time program and these included: (1) A program should be formulated for the removal of submarginal trees; (2) a permanent national committee of apple growers from each State should be formed to study various problems confronting the apple industry; and (3) an executive committee should be designated from the membership of the national committee for the purpose of formulating a constructive approach to cull-apple problems.

SURPLUS APPLES REMOVED

Under the first phase of the program involving purchases of apples for relief use equal to the quantity diverted by growers, a total of 4,485,000 bushels was bought. Whereas a quantity of apples greater than this total was diverted, it is estimated that not over half consisted of fruit which would otherwise have been sold for fresh consumption purposes. Under the entire program extending from October 1939 to May 1940, more than 9,000,000 bushels were purchased at a commodity cost of over \$6,618,500. By far the major quantity of apples purchased was distributed in fresh form to persons on relief. Approximately 396,000 bushels were purchased and processed into dried apples for distribution in that form. Total cost to the Federal Government for the operation under the Nation-wide apple-purchase program amounted to \$8,395,548, including commodity and transportation costs.

Before the national purchase program was started, assistance in the form of purchases for relief distribution was extended to growers of apples in Sonoma and Napa Counties of California. Growers in that area were confronted with a 1939 crop 32 percent above the 2,075,000-bushel average of the preceding 6 years. Moreover, exports

from this area, which ordinarily account for a large proportion of the crop, were curtailed substantially. To assist in alleviating the pressure of large supplies, purchases of over 125,400 bushels of Gravenstein apples were made at a cost of \$88,900. Total expenditures under this program, including transportation and other incidental costs, exceeded \$142,400.

WIDE AREA AFFECTED

Purchases under the national program, including operations in the Sonoma-Napa area of California, were made in 24 States with a grand total of over 9,500,000 bushels of apples obtained for relief distribution in fresh and dried form. These purchases amounted to over 9 percent of the total United States 1939 commercial apple crop. In individual States volume of purchases varied from less than 1 percent to slightly over 19 percent of the commercial apple crop.

Total cost of all apples purchased during the 1939-40 fiscal year amounted to \$8,537,948. This is equivalent to approximately 13 percent of the farm value of the total United States 1939 commercial apple crop. Three-fourths of the surplus apples bought were from the States of Michigan and Ohio eastward, and from Virginia and other States north where marketing difficulties were most acute.

MADE UP FOR LOST EXPORTS

Exports of apples during the 1939 season only amounted to approximately 3,200,000 bushels, compared with the average for previous seasons of 10,500,000 bushels. Purchase operations, therefore, not only absorbed a quantity of apples in excess of the difference between average and actual exports, but, in addition, further reduced the surplus of fresh apples which would have been forced on domestic markets. Removal of so large a quantity from the normal fresh-fruit channels of trade contributed substantially to steady improvement in prices received by growers throughout the season. From October 1939, the first month of purchases, to May 1940, the month during which the program was discontinued, the United States farm price of apples increased over 60 percent.

APPLES UNDER STAMP PLAN

In addition to extensive assistance given to apple growers under the direct purchase program, fresh apples were designated as a surplus commodity under the stamp plan beginning October 1, 1939, and they were continued on the surplus food list until June 10, 1940. During the first 2 months, families participating in the stamp plan used about 8 percent of their blue-stamp purchasing power for apples, and they later used 3 to 4 percent. In all, about 300,000 bushels were moved into consumption through the stamp plan at a cost of \$572,000.

INDUSTRY COOPERATION ENCOURAGED

Outstanding feature of the 1939-40 apple season is not that export outlet for apples was reduced by over two-thirds, or that purchase

operations on the part of the Federal Government represented the most extensive program in the field of fresh fruits to date. The high light is in substantial progress made by growers throughout the country in a mutual appraisal of their marketing problems and desire to deal with those problems on an effective Nation-wide basis. This is illustrated in the industry's creation of a National Planning Committee, a direct outgrowth of the fall and winter conferences.

This Apple Planning Committee is composed of representatives from 32 producing States. Its first meeting was held in April 1940 at Rochester, N. Y. Aim of the committee is to bring about greater uniformity in quantity of apples marketed from year to year and to confine fresh fruit marketings to apples of satisfactory quality. This objective has been construed by the committee to involve two major problems: (1) To devise a method or methods for eliminating trees which bear mainly in alternate years and those which produce fruit of low average quality, and to accomplish a reduction in trees bearing varieties which are undesirable on present markets; and (2) to bring about general diversion of cull apples from the fresh-fruit market. These problems were given active attention by the committee at its first meeting. Resolutions were adopted which were directed at (1) obtaining State and Federal legislation to control sale of low-grade and "cull" apples, and (2) effecting removal of marginal trees through cooperation of State and Federal agencies.

CITRUS INDUSTRY ASSISTED

Production of oranges in this country during the past 5 years averaged over two times the quantity produced annually during the 5-year period ending in 1923-24. Grapefruit production, on the other hand, has averaged nearly four times the annual production of the 1923-24 period.

Expansion in production of oranges and grapefruit combined over the past two decades has been at more than twice the rate of increase in this country's production of all fruits combined. This steady expansion in citrus output has been one of the primary factors bearing upon marketing program activities undertaken by and for the industry in the several producing areas during recent years.

Marketing-agreement programs have played an important role in regulating shipments of citrus fruit since 1933. These have been supplemented by surplus removal programs during critical periods when supplies of fruit were extremely heavy and prices to growers were depressed. During the 1939-40 season regulations under marketing agreements and orders were established for shipments of oranges, grapefruit, and tangerines grown in Florida and of oranges from California and Arizona. Further aid to growers was extended through relief purchases of surplus oranges and grapefruit in the California-Arizona area and oranges alone in Florida. A marketing agreement program for Texas citrus fruits was in effect for a part of the 1939-40 season.

Oranges.—The California-Arizona Valencia orange crop marketed during the summer months of 1939 was about one-fifth smaller than the record crop of the previous season, but it was more than 10 percent larger than average production during the five preceding seasons. Average size of fruit available for shipment was by far the smallest

on record, and the grade of fruit was relatively poor, owing to damage from frost and wind storms during early spring.

These adverse crop conditions presented important obstacles to marketing the growers' product. Further complications were added by the fact that volume of Florida oranges shipped during the California-Arizona Valencia season was the largest on record, amounting to over twice the average volume shipped during the preceding five summers.

VALENCIA ORANGES BOUGHT

To meet the season's difficult marketing problems more effectively, a purchase program was developed for removal of some of the burdensome supplies of smaller-size California-Arizona oranges, and thereby supplement regulatory activities of the industry under the marketing agreement and order.

Approximately 300,000 boxes of Valencia oranges were purchased under this surplus removal program through June 1940. Despite relatively unfavorable quality of the fruit, prices of California-Arizona Valencia oranges rose steadily during the season and averaged \$3.21 per box in Eastern auction markets, or about 29 cents a box above the average of the previous season. Marketing agreement and purchase program operations were supplemented by the industry with special efforts to merchandise the small sizes available for sale, and more small sizes were sold in regular trade channels than was thought possible at the beginning of the season.

PURCHASES OF WINTER VARIETIES

At the outset of the 1939-40 season, supplies of United States winter oranges in prospect appeared larger than the record winter orange crop of the preceding season. Although the new California-Arizona Navel and miscellaneous orange crop appeared to be about 500,000 boxes less than the crop of the previous year, production of Florida oranges and tangerines was forecast at about 2,000,000 boxes above the crop of the preceding season. After the first few weeks of shipments, orange prices dropped to low levels, and Eastern auction prices of Florida oranges prevailing during November and December 1939 and January 1940 were the lowest on record. Volume of oranges shipped to consuming markets for the Christmas week was the largest in the history of the industry.

Purchases of surplus Florida oranges were started early in December, and, despite large volumes of fruit bought weekly for relief channels, level of commercial market prices continued to decline. The industry in Florida recommended establishment of increasingly more stringent grade-and-size regulations under the marketing agreement and order to govern shipment of oranges in an effort to curb the flow of supplies which were demoralizing market prices.

FREEZE IN FLORIDA

Problem of excessive supplies was corrected abruptly during the last few days of January, when freezing weather in Florida and Texas appreciably reduced the remaining supply of oranges available in those production areas. Prices of oranges from all areas rose im-

mediately and remained at relatively high levels during the balance of the season, after it became apparent that approximately 8,000,000 boxes of oranges had been destroyed by cold weather. Florida orange prices averaged \$1.88 a box in the Eastern auction markets for the season through January 1940, and \$2.35 a box for the season as a whole.

GROWERS' MARKET PROTECTED

After the frost, shipping regulations under the Florida marketing-agreement program were established to protect the improved level of prices for merchantable fruit remaining in the producing area, and to assure the consumer a good quality product. Achievements of the industry in controlling the type of fruit made available to consumers have been widely commended, since performance of the industry under similar circumstances in the past resulted in flooding Northern markets with badly frost-damaged fruit. Purchases of surplus oranges were continued throughout the season to aid the industry in removing a portion of the heavy supplies which existed during the early part of the season, and to supplement the regulatory activities under the marketing-agreement program. Under the purchase activities over 850,000 boxes of Florida oranges were diverted to relief channels.

Prices of California-Arizona Navel and miscellaneous oranges were also relatively low at the start of the 1939-40 winter orange season due to large volumes of citrus fruit from all areas in the consuming markets. Prices for the season through January averaged \$2.60 a box in the Eastern auction markets. Following the freeze in Florida and Texas, prices improved substantially and, as a result, the average for the season as a whole was \$2.85 a box. This may be compared with averages of \$2.72 a box during the 1938-39 season and \$2.64 a box during the 1937-38 season.

CONSUMPTION INCREASED

In addition to the price improvement experienced by California-Arizona Navel and miscellaneous orange producers, a larger proportion of the crop was shipped for fresh consumption in the 1939-40 season than in any of the preceding 5 seasons. The industry regulated the volume of weekly shipments under the marketing agreement program throughout the season. These efforts were supplemented by the purchase for relief distribution of approximately 400,000 boxes, or over 2 percent of the winter orange supplies in the Pacific-coast area.

For all producing areas, purchases of surplus oranges during the 1939-40 season approximated 2,112,500 boxes with an expenditure slightly in excess of \$3,239,473, including commodity and transportation costs.

In addition to supplies bought directly for relief distribution purposes, oranges were included on the list of surplus commodities available with the blue stamps under the stamp plan. From December 1939 through June 1940 families taking part in the stamp plan used 6 to 7 percent of their increased buying power in obtaining oranges from retail outlets. These purchases with the blue stamps approximated 276,000 boxes of oranges and involved an expenditure of about \$959,000.

Tangerines.—Almost all of the United States tangerine crop is produced in Florida. The 1939-40 crop in that State amounted to 2,300,000 boxes, or roughly 10 percent less-than-average production during the 5 seasons ending in 1938-39. Despite heavy competition from United States winter oranges, prices for Florida tangerines in consuming markets averaged higher than for any other season since 1931-32 and were 15 percent higher than the average of the past 5 years.

Regulations under the Florida citrus industry's marketing agreement and order prohibited shipments of lower grades and price-discounted sizes. Size restrictions were removed and grade restrictions were relaxed after February 12, 1940. With almost all of the available supplies of tangerines in Florida shipped before the frost during the latter part of January, Florida tangerine growers experienced one of the most profitable seasons in the history of the industry. Regulations under the marketing agreement and order were important factors which contributed toward improved returns to growers and to maintaining high quality fruit in consuming markets.

Auction market prices for tangerines averaged \$2.74 per box for the 1939-40 season. This compares with \$2 per box for the 1938-39 season and \$2.48 per box the year before.

Grapefruit.—Production of grapefruit in the United States is confined to the 4 States of Florida, Texas, California, and Arizona, with Florida and Texas combined producing about 85 percent of the total United States supplies. Grapefruit grown in Florida, Texas, and Arizona is marketed during the period September through June or July, while California grapefruit is marketed throughout the year.

Production of grapefruit in Florida and Texas combined was estimated at 32,300,000 boxes at the start of the 1939-40 marketing season. This was 6,000,000 boxes less than the 1938-39 grapefruit crop in these States, although larger than supplies in these areas during any previous season. In the 1938-39 season over 3,000,000 boxes of surplus grapefruit were purchased in Florida and Texas for distribution to relief channels, and an equal quantity was diverted from commercial channels by industry programs. Consequently, the forecasted crop for these two States was about equal to the supplies marketed in fresh and canned form in commercial channels the previous year.

Shipments from Texas were heavy during the first few months of the 1939-40 marketing season, while Florida shipments were considerably smaller than during the previous season. Through January 1940, Texas grapefruit prices averaged \$2.01 per box in the Eastern auction markets, which was equal to the average during the same period the year before. Prices of Florida grapefruit, however, averaged \$2.08 a box, or nearly 30 cents above the 1938-39 average through January. Freezing weather during the latter part of January 1940 reduced supplies of grapefruit by over 2,000,000 boxes, and price levels improved for both Florida and Texas grapefruit. For the season as a whole, prices of Texas grapefruit averaged \$2.10 a box, or 17 cents a box above the average of the 1938-39 season, while Florida grapefruit prices averaged \$2.14 a box, or over 40 cents a box above the average of the preceding season.

MARKETING AGREEMENTS HELPED

The 1939-40 season was the first season in 4 years in which no purchases of surplus grapefruit were made in Florida and Texas areas. Under the Florida citrus industry's marketing agreement and order, however, shipments of U. S. No. 3 and lower grades of both seedless and seeded grapefruit from that State were prohibited from the start of the season through the week ending February 12, 1940. After that week, shipments of U. S. No. 3 and better grades of grapefruit were permitted. There were no size restrictions upon shipments of Florida seedless grapefruit, although shipments of smaller sizes of seeded grapefruit were prohibited during the period October 1 through February 4.

An outstanding feature of the 1939-40 season is that for the first time in the history of the grapefruit industry more grapefruit in Florida and Texas combined was canned than shipped to fresh channels. During that season over 50 percent of the grapefruit supplies in the two States was canned in contrast to an average of 36 percent of the supplies processed during the past three seasons.

ARIZONA GRAPEFRUIT BOUGHT

The 1939-40 California-Arizona grapefruit crop was reported at nearly 4,900,000 boxes, or over 400,000 boxes larger than the crop of the previous year and 1,000,000 boxes larger than the average annual production during the past 5 years. During fall and winter months prices to growers were at record low levels for that part of the season. Price levels improved, however, after supplies of grapefruit in Florida and Texas were reduced by severe weather conditions late in January 1940.

Despite improvement in the market, Arizona grapefruit growers experienced difficulties in marketing their entire merchantable supplies. During the latter part of June 1940 purchases were made totaling nearly 40,000 boxes of surplus Arizona grapefruit which otherwise would have remained unharvested. Expenditure for this fruit was slightly in excess of \$43,000, including commodity and transportation costs.

Grapefruit was available under the Food Stamp Plan during the shipping season. A total of 142,000 boxes of grapefruit moved into consumption with an expenditure of \$283,000 in blue stamps.

Broader cooperative activity.—During the fall and winter months of the 1938-39 citrus marketing season a National Citrus Merchandising Committee was organized. Its members represented growers, canners, and handlers from each of the major producing areas, and the wholesale and retail distributive trade.

Representatives of the Department of Agriculture have worked closely with this group whose main purpose has been to promote a better common understanding of marketing problems of the citrus producer, and to assist in coordinating efforts to accomplish more effective distribution of the plentiful supplies of citrus fruit. This committee continued to function in the 1939-40 year, holding meetings periodically to chart a course of action in merchandising oranges and grapefruit. Further activities of this group should make substantial contribution in the field of marketing citrus fruit.

PACIFIC COAST PEARS

Bartlett pears.—Two-thirds of the United States pears are grown in highly specialized producing areas in the three Pacific Coast States of California, Oregon, and Washington. Bartlett pears represent almost three-fourths of the Pacific coast volume.

First official estimate of the 1939 production of Pacific coast Bartlett pears placed the crop at approximately 330,000 tons, or 17 percent below the bumper crop of 1938 but 6 percent above the average for the 10-year period ending in 1937. A total of 210,000 tons was reported for California with the remainder in Oregon and Washington. During the course of the season, however, these estimates were revised upward, and the crop accounted for finally totaled 354,000 tons, of which 221,000 tons were produced in California.

Supplies of competing deciduous fruits in 1939 were generally above average. However, a smaller crop of Bartlett pears available than during the preceding year, improved demand conditions, and particularly a low carry-over of canned pears with expectation of a favorable export demand for canned and dried pears during the season, represented major factors contributing to an improved market outlet. As the harvesting season progressed, canning and drying outlets absorbed supplies to such an extent that the volume which remained available for fresh shipment was actually less than the average of the preceding 5-year period.

MARKETING AGREEMENT USED

During the 1938 season the Bartlett pear industry on the Pacific coast marketed the largest crop on record without any industry programs in effect. Returns to growers were lowest on record. Chiefly as a result of this experience the California Bartlett pear industry overwhelmingly favored a marketing agreement program for the 1939 season. Consequently a Federal marketing agreement program, designed to regulate shipments by grades and sizes and also the volume of daily shipments, was developed and adopted by the industry. This industry program related only to fresh fruit shipments, but it was supplemented by a State marketing agreement program designed to control the grade of Bartlett pears used for canning.

Under the Federal marketing-agreement program shipments in interstate commerce of fresh fruit were limited to U. S. Combination grade, consisting of at least 60 percent U. S. No. 1 grade, and to sizes 180 and larger. Moreover, daily shipments were limited to a specified number of cars throughout the major portion of the season. During the period of heavy shipments in July a loading holiday was also instituted.

SOME PURCHASES MADE

Only limited assistance to the industry in the form of purchases for relief distribution was required with the result that slightly over 5,400 boxes were diverted from commercial channels with an expenditure of a little over \$9,100. However, additional support was given to marketing of pears by including them on the list of surplus commodities available under the Stamp Plan.

More favorable marketing conditions, in conjunction with the industry programs and direct Federal assistance extended, contributed substantially to improving grower prices in 1939 over those received in the previous season. Delivered auction prices for fresh California Bartlett pears averaged \$2.52 a standard box, compared with \$1.93 in 1938 and \$2.38 for the 5-year period, 1934-38. On-tree returns to growers for all fresh California Bartlett pears sold averaged nearly \$27 a ton in 1939, contrasted to the \$9 a ton received in 1938, and an average of \$25 a ton for the 5-year period, 1934-38.

Fall and winter pears.—Production of fall and winter pears, or the so-called late dessert varieties of pears consumed only in fresh form, is concentrated in the three Pacific Coast States. Approximately one-fourth of all pears produced in that area consist of fall and winter varieties. The 1939 production of fall and winter pears amounted to 149,200 tons. This volume represented the second largest crop on record, following the peak year in 1938 when the crop reached 172,300 tons.

During recent years exports averaged 46 percent of the total volume of Pacific coast late-pear shipments, with nearly 85 percent of the fruit exported going to countries in Europe. Proportion of total shipments exported varies considerably by production districts and varieties. For example, during recent years 92 percent of the Hardy variety shipments have been exported, whereas only 6 percent of the total Bosc shipments have been directed to foreign markets. Marketing of Hardy pears for the 1939 season was partly completed when hostilities in Europe began. However, exports of this and other varieties were not discontinued abruptly at the outbreak of the war but were discontinued about 2 months later, except for fruit which had been purchased previously or was awaiting shipping orders.

MARKETING-AGREEMENT PROGRAM

A marketing agreement and order were issued for California Hardy pears during June 1939. This program provided for grade and size shipping regulations and volume control of exports to Europe. Under the grade and size regulatory provisions, shipments during the 1939 season were limited to U. S. No. 1 grade and to sizes 180 and larger. Under the volume-control terms of the program, shipments to Europe were limited to 650 cars of 640 boxes each.

The initial marketing-agreement program for other major varieties of Pacific coast fall and winter pears was developed and established for the 1938 season only. A new marketing-agreement program on a continuing basis, with substantially the same provisions as the 1938 program, was developed and instituted during August 1939. This program provided for regulation of shipments by grades and sizes only. During the 1939 season shipments were limited to U. S. Combination grade with an added tolerance for certain defects, and to specified sizes for each of the several varieties.

NEW MARKETS ENCOURAGED

In addition to the marketing-agreement programs for fall and winter pears, the industry has been assisted in developing outlets for the rapidly expanding production. This has been accomplished

by diverting pears to new markets. The first diversion program was initiated during the 1936-37 season, and one has been in effect each year since. During the 1939-40 year a diversion payment of 40 cents a box was made on all fruit shipped to specified domestic and export markets which formerly had received no late pears, or only minor quantities.

A marked increase in volume of pears diverted to new markets has occurred each year of the program. During 1939-40, diversion payments totaling slightly over \$130,700 were made on 326,800 boxes. Payments were made on 199,240 boxes in 1938-39, and on 75,300 boxes in 1937-38. Further assistance was extended during 1939-40 by the purchase of 268,700 boxes of the Anjou, Hardy, and Comice varieties for distribution in relief channels. This involved an expenditure slightly in excess of \$370,600, including commodity and transportation costs. In addition, winter pears gained the advantage of being listed as a surplus commodity under the stamp-plan program.

RETURNS TO GROWERS IMPROVED

Efforts of the fall and winter pear producers under marketing-agreement programs, in conjunction with substantial assistance under the diversion and purchase programs, contributed greatly to preventing extremely low returns to growers even though the crop was the second largest on record and the important export outlet was curtailed. Returns to Hardy pear growers from exports were relatively favorable. Moreover, domestic sales of Hardy pears were much larger in 1939 than in the 1938 season when returns to growers were below those of the year earlier. For domestic and export sales, combined returns to growers averaged approximately \$17 a ton for the fruit on the tree, compared with \$4 a ton in 1938 and an average of \$24 a ton during the period 1934-38.

Marketing of the other major late pear varieties was adversely affected by the restricted export movement due to the European war. The resulting heavier supplies were available for domestic consumption and contributed to depressing returns to growers. Preliminary estimates indicate a return of \$18 a ton, on-tree basis, compared with \$20 a ton received during the preceding season.

Pears were included on the stamp-plan list of surplus commodities from August 1, 1939, to June 10, 1940. In the fall months, 2 to 3 percent of the blue stamps were exchanged for pears at retail outlets by persons taking part in the plan. In the winter months, however, when western supplies were not widely distributed, the blue-stamp purchases of pears were much smaller. In all, approximately 19,000 boxes of pears moved into consumption under the stamp plan during the period they were included on the list of surplus commodities. This represented an expenditure of about \$55,000 in blue stamps.

CALIFORNIA PLUMS

During the winter and spring months of 1939 California plum growers joined with growers of Bartlett pears and Elberta peaches in the development of a Federal marketing-agreement program designed to regulate the interstate shipments of their product. This action by growers was prompted primarily by their conclusion that

generally unsatisfactory results experienced for the 1938 marketing season could be attributed to lack of a definite industry program. Moreover, prior to the 1938 season, these growers had marketed their crop under the regulations of a Federal marketing-agreement program. Early indications for the 1939 California plum crop were favorable and production amounted to 71,000 tons, or 9,500 tons above the average for the preceding 10 years.

Under the newly developed marketing-agreement program, 1939 shipments of plums were limited to specified grades and sizes for each of the several varieties. Although these regulations aided materially in preventing shipment of immature plums and those grades and sizes which would have sold at substantial price discounts, the marketing season was considerably complicated by varieties, normally ripening over successive periods of time, ripening at approximately the same time. This contributed to making unusual supplies available for shipment during peak periods.

Efforts of growers to meet their marketing problems through regulations were supplemented by purchase of plums for relief distribution. Approximately 100 cars, or nearly 95,300 lugs of plums, were purchased at a total cost of \$95,935, including transportation and other charges.

The 1939 auction-market price for California plums was \$1.48 a crate. This was 5 cents above the average market price at those markets for the previous 5-year period and 18 cents above the 1938 price. Moreover, the total quantity shipped exceeded the average for the 5-year period.

NORTHWEST PRUNES

Washington and Oregon producers of prunes for consumption in fresh form have the problem not only of marketing a highly perishable commodity but also of marketing that commodity within a comparatively short period of time. Normal marketing season extends from 30 to 40 days, with the bulk of the marketings being shipped during a period of 15 to 20 days. It is not uncommon for much of the tonnage to be in transit before the first shipments reach the markets.

Producers of fresh prunes have experienced a steady increase in production. Fresh prune production in Oregon and Washington averaged 31,170 tons for the 10-year period ending in 1938. In 1939 the crop of fresh prunes in that area was 35,100 tons. This large crop of fresh prunes was ready for market at a time when the late peach crop, which was the largest since 1931, was arriving in heavy volume in the Eastern markets.

Growers in Umatilla County, Oreg., and Walla Walla and Columbia Counties, Wash., operated under a marketing agreement program during the 1939 season. This program had been developed and also operated in the preceding year. It provides for the regulation of shipments from the area by volume and by grades and sizes, and, in addition, provides for posting of prices at which fresh prunes are quoted for sale by handlers.

The 1939 operations under the marketing agreement program were supplemented by purchase of a limited quantity of prunes for relief distribution. During August a total of 32 cars was bought

in the Oregon-Washington area at a total cost, including transportation, of over \$20,000. Although commercial shipments were heavier than those anticipated, market prices for fresh prunes approximated the same level for the season as a whole as in 1938.

PEACH GROWERS ASSISTED

During the season 1939 United States production of peaches totaled 60,000,000 bushels, of which approximately 20,000,000 were canned or dried, and 40,000,000 consumed fresh. This crop represented an 18 percent increase over the production of the previous year, and was more than 15 percent larger than the average for the 10 years 1929-38.

Principal producing areas contributing to this increased supply were the Southern States of Georgia, North and South Carolina, Arkansas, Texas, and Tennessee, the Northeastern and North Central States of Pennsylvania, New York, New Jersey, Illinois, and Michigan, and the Western States of California, Colorado, Washington, and Utah. On the whole, prices and returns to growers were generally higher in 1939 than in the preceding season.

MARKETING AGREEMENTS IN TWO AREAS

Two important producing areas had marketing agreement programs in operation in 1939. Interstate shipment of Elberta peaches from California was governed by a marketing agreement program which became effective in May. Regulation of all peaches shipped out of the State from Mesa County, Colo., was also provided for under terms of a program effective in August.

The marketing agreement program for California Elberta peaches (and certain other deciduous fruits) provides for three types of regulation for Elberta peaches: (1) Restriction of shipments to certain specified grades and sizes, (2) regulation of daily shipments by allotment to handlers in accordance with the total advisable quantity as determined by the Secretary of Agriculture and supplemented if conditions warrant by suspension of all peach loadings for a period of 48 hours, and (3) regulation of unfair trade practices and unfair methods of competition. The California Elberta peach industry operated under this agreement throughout the 1939 season; however, shipments were regulated only by restricting movement to specified grades and sizes.

The marketing-agreement program for peaches produced in Mesa County of Colorado provides for regulation of shipments by grades and by sizes. This program operated throughout the 1939 season in conjunction with a concurrent State marketing agreement program. A regulation restricting shipments to U. S. No. 1 grade peaches 2 inches in diameter or larger was made effective on August 18 for duration of the marketing season.

The peach crop in Colorado totaled 1,575,000 bushels, slightly less than the record crop of 1938. By confining shipments to the better grades and sizes, combined rail and truck volume in 1939 for the State as a whole amounted to 2,283 carloads compared with 2,838 carloads for the larger crop of 1938. Although opening sale prices were made at \$1 a bushel in 1939, as compared with \$1.10 a bushel

in 1938, the season average for 1939 was substantially higher than the previous year, inasmuch as 90 cents a bushel was the lowest level of prices in the 1939 season while the bulk of sales in 1938 was made at 80 to 85 cents a bushel.

SURPLUS PEACHES BOUGHT

During the latter part of the 1939 marketing season, sizable purchases of fresh peaches for relief distribution were made in six different States, including California, Colorado, Michigan, New Jersey, Ohio, and Utah. Total cost of the fruit purchased including transportation amounted to slightly less than \$500,000 for approximately 325,000 bushels. In addition, over 29,000 bushels moved into consumption under the stamp plan at a cost approximating \$66,000.

CLINGSTONE PEACHES

The 1939-40 California clingstone peach season was marked by quick recovery from the preceding season which was one of the most disastrous ever experienced by the industry. Failure of growers and canners in 1938 to agree upon tonnage that should be processed under the State marketing-agreement program caused the whole plan to be abandoned. Lack of market control resulted in returns to growers dropping to the extremely low point of \$7.50 a ton for U. S. No. 1 grade clingstones for canning. Low prices contributed to a heavy movement of canned peaches in 1938-39 so that on June 1, 1939, the carry-over amounted to approximately 2,700,000 cases, as compared with the above-average carry-over of 5,577,000 cases the previous year.

A near-record production of 366,000 tons of clingstone peaches in 1939 made it imperative that some action be taken by the industry to avoid a repetition of the 1938-39 season. A California State marketing agreement was set up with the approval of growers and canners. It called for strict inspection and grade control limiting the peaches going to canners to No. 1 fruit, except for a tolerance of a small percentage of other than No. 1's. Although this agreement eliminated a large percentage of the crop, the tonnage of No. 1 peaches available for canning exceeded the visible market.

PURCHASES MADE

The industry requested additional help through Federal purchases and a program was put into effect to reduce the surplus of No. 1 fruit by purchasing fresh clingstone peaches at \$20 a ton to be canned, dried, and used in fresh form for relief distribution.

A total of 16,825 tons of peaches was bought in the surplus-removal program. Of this amount about 5,200 tons were canned, 3,600 tons dried, and 8,000 tons distributed in fresh form. Cost of peaches thus distributed approximated \$318,700, while other costs, including processing, transportation, storage, and other charges, amounted to about \$500,000.

The season-average price paid to growers by canners equaled the \$20 price paid for surplus peaches bought for relief distribution. The season closed with a carry-over on June 1, 1940, of 2,690,000 cases, which was slightly below the inventory carried over from the preceding season.

LOGANBERRY GROWERS HELPED

Commercial loganberry production is confined principally to the State of Oregon, with Washington producing smaller but important quantities. Major outlet for the crop is canning, although freezing is steadily gaining in popularity. The use for loganberries for drying, for juice, and for fresh consumption has declined in recent years, and these outlets are no longer considered important.

Early in June of 1940 it was estimated that the Northwest loganberry crop would range from 3,300 to 3,700 tons, or slightly larger than the average for the preceding 5 years. With apparent loss of virtually all of the export market, which had in previous years amounted to about 70 percent of the total canned movement, canners were unable to determine what volume could be packed, or what prices to pay for fruit with safety to themselves. With the sale of loganberries practically at a standstill, and with a rapidly ripening crop, loganberry growers requested the Federal Government to purchase fresh fruit to be canned for relief distribution. Such a program was put into effect. With this assurance that the surplus canning tonnage would be removed, domestic canners could enter the market and pack sufficient tonnage to meet the anticipated commercial demand. After only 221 tons had been purchased, involving a total expenditure of \$22,117, unusually hot weather damaged the crop and reduced available supply to the point where it became necessary to suspend surplus removal operations, there being only sufficient berries remaining for canners' needs.

DRIED FRUITS AND TREE NUTS

Underlying marketing problems encountered by the dried-fruit industries in recent years is the steady increase in volume of all fruits sold for consumption in dried form. This upward trend has continued since the beginning of the present century, and is characteristic, not only of the group as a whole, but of practically every type of fruit which is dried. As a result, annual production of all dried fruit on the Pacific coast averaged 550,000 tons during the past 5 years, as compared with production averaging approximately 200,000 tons during 1909-13.

Notwithstanding low price levels prevailing during recent years, consumption of dried fruits in general has lagged appreciably behind that of production. Dried-fruit exports followed a sharply downward trend from 1928 to 1934, and, although this movement had been increasing prior to the outbreak of the European war, it remained considerably below the levels reached in 1927 and 1928. Total export movement in the 1938 season represented only about three-fourths of the peak movement in 1928-29. Consumption of dried fruits in the United States has similarly failed to hold to predepression levels.

VARIOUS MEASURES USED

Marketing problems arising from these conditions have been met by programs operated by the industries themselves, or operated under State or Federal legislation. In general, these measures have sought to reduce the total supply available for market and to improve the quality of the dried fruits made available to consumers. During the

past 5 years nearly 262,000 tons of dried fruits were bought under Federal and State programs for distribution to persons on relief. An additional quantity of over 74,000 tons of low-quality fruit was diverted, with the assistance of subsidy payments, from normal trade channels for processing into various byproducts.

Since the outbreak of war in Europe, the export market for dried fruits, which has in the past represented as much as half of the entire market for some of these commodities, has been seriously curtailed. Extent of governmental control now existing in the principal export outlets not only jeopardizes markets upon which the domestic dried-fruit industries have been developed, in varying degree, but also involves these markets with conditions and uncertainties not previously experienced.

ASSISTANCE IN PRUNE MARKETING

The 1939-40 marketing season for Pacific coast prunes opened with average supplies, but with increasingly uncertain prospects in the more important foreign markets. Production in 1939 amounted to only 213,400 tons, a crop 10 percent below average production during the 5 preceding years. However, carry-over stocks from the preceding crop were relatively heavy, totaling 65,000 tons, making an available supply of 278,400 tons, or 96 percent of the average annual supply during the preceding 5-year period.

FEDERAL-STATE AID

Control of marketing under the California Agricultural Prorate Act was continued during the 1939-40 season to provide for strict inspection of all fruit and to insure removal of low-grade prunes. Federal assistance to this State program was continued in the form of subsidy payments to relieve the industry in part of the burden of diverting its substandard tonnage of prunes to much less remunerative byproduct outlets available. Approximately 5,200 tons of low-quality prunes were so removed from normal market channels during the 1939-40 season at a cost of \$104,443. Removal of substandard fruit was in keeping with the practice previously inaugurated by the prune industry to improve quality of prunes sold for human consumption, and, at the same time, reduce the total available supply which has for several years proved excessive in the face of existing demand in domestic and in export markets.

WAR HIT EXPORTS

As was customary, prices for 1939-crop prunes, both to growers and to the distributive trade, were based upon expectation of a customary export movement. Normally about 34 percent of the total prune supply is exported, principal foreign markets being France and the United Kingdom. This export movement occurs principally during the last 4 months of the year, September through December, about half of the season's total shipments normally being exported during this period.

Outbreak of war in Europe in September 1939 thus placed the entire price structure of the prune industry in jeopardy. During the

last 4 months of 1939, prune exports declined to less than 29,000 tons, or approximately 62 percent of the average volume exported during the same period in 5 preceding years. Throughout the season exportation became increasingly difficult. Exports declined sharply after March 1940, and during the next 2 months amounted to only 25 percent of the average April-May movement during 1935 to 1939.

DEALING WITH SURPLUSES

A Federal purchase program was put into effect on September 9, 1939, and purchases were made from time to time throughout the season. By the end of June 1940, purchases amounting to over 46,500 tons of standard prunes produced in California and in the Pacific Northwest had been made at a total cost of \$3,661,871. As an additional stimulus to domestic consumption of dried prunes, this commodity was listed among surplus foods available to persons taking part in the stamp plan. During the 1940 fiscal year, over 1,670 tons of surplus prunes moved into consumption under the stamp plan through expenditure of \$265,000 in blue stamps.

Through Federal programs and merchandising efforts of the prune industry it was possible to offset unexpected curtailment in outlet for the 1939 crop. This is indicated by the fact that volume of prunes remaining undistributed at the end of the 1939-40 season was estimated at approximately 62,500 tons. This carry-over, although heavier than stocks normally required by this industry to meet its early season merchandising requirements, is approximately the same as the tonnage carried into the 1939-40 marketing season from the 1938 crop. The 1939-40 farm price of prunes, estimated at \$69 per ton, compares with an average approximating \$60 per ton for the 1934-38 period.

HELP IN MARKETING RAISINS

The marketing problem facing the California raisin industry as a result of heavy production continued during the 1939-40 season. Notwithstanding diversion under State regulation of approximately 20 percent of the 1938 crop, the 1939-40 season opened with heavy inventories totaling 105,000 tons. The 245,000-ton crop of 1939, although smaller than those produced in the 2 preceding years, was much larger than average tonnage produced during 1934 to 1938, and, together with the heavy carry-over, provided a supply of 350,000 tons. Moreover, as a result of disagreement among members of the raisin industry, the State proration program, operated in 1938-39, was discontinued.

Following increased export movement in September and October of 1939, during which shipments to European countries were approximately 71 percent above normal, raisin exports steadily declined. For the entire season exports amounted to less than 75 percent of the movement during the preceding year.

SURPLUS RAISINS BOUGHT

In September 1939 a Federal purchase program was inaugurated. Remaining stocks of 1938 raisins held in the loan pool established during the 1938 season under the industry program were removed

from normal trade channels through the purchase program. With additional purchases made from time to time during the 1939-40 season, over 73,000 tons of raisins were removed for distribution through relief channels at a total cost of \$5,103,035. An effort to stimulate distribution through regular channels also was made by inclusion of this commodity on the list of surplus foods available under the stamp plan. Approximately 1,349 tons of raisins moved into consumption under the plan at a cost of \$209,000.

Indications are that tonnage remaining in packers' and growers' hands at the end of the 1939-40 marketing season will be less than the tonnage held by them at the beginning of the season. A carry-over of around 70,000 tons, while in excess of tonnage needed for normal merchandising requirements, would be 35,000 tons less than that carried into the 1939-40 season, and approximately 10 percent less than average carry-over during the past 5 years. Prices to growers for 1939-40 are estimated at approximately \$45 per ton, which compares with \$59 for 5 preceding years.

MARKETING DRIED APRICOTS

Record crop of 312,000 tons of apricots in California in 1939 resulted in a dried apricot pack of nearly double that of the preceding year and nearly 60 percent above the average pack of 1934-39. These heavy supplies contributed to low prices both to growers and to the trade.

Largely as a result of lower prices, exports of dried apricots in the 1939-40 season exceeded those of the previous season by about 12 percent, a marked contrast to export movements of other dried fruits which experienced sharp reductions during this period. However, rise in export movement was less than the increase in the 1939 pack and, as a consequence, the supply available for the domestic market remained heavy.

Lower prices prevailing in the domestic market during 1939-40 did not sufficiently increase domestic consumption and the season ended with an unusually heavy carry-over. To relieve pressure, Federal purchases for relief distribution were authorized in the amount of 2,000 tons of dried apricots. The industry did not take advantage of this offer, and no purchases were made. In view of greatly reduced supplies available from the 1940 crop, however, no difficulties are anticipated by the industry in moving inventories during the 1940-41 season.

AID IN MARKETING DRIED PEARS

Drying of pears is practically confined to the Bartlett variety produced almost entirely in California. Through drying it is possible to use fruit which is not suitable for fresh shipment or for canning. The California Bartlett crop in 1939, although below the almost record crop of the preceding year, was 10 percent above average production during the 5-year period, 1934-38. Out of this crop approximately 44,400 tons of fresh pears were dried—a volume equaled only by the large tonnage dried in 1936. This yielded over 8,000 tons of dried fruit for distribution during 1939-40.

California dried-pear industry is dependent to an unusually large extent upon foreign markets. On the average approximately 80 per-

cent of all dried-pear production is exported either in the form of dried pears or in dried-fruit salad. Practically the whole of this export movement has been to European countries affected by the war. Exports for the 1939-40 season approximate 56 percent of the record export movement during 1938-39 and are about 70 percent of the average movement during the 5 years, 1934-38. Federal purchase programs operated during the 1940 fiscal year, and some 500 tons of dried pears were made available for relief distribution at a total cost of \$76,879.

DATE INDUSTRY HELPED

Production of dates in California and Arizona in 1939 was greatly reduced by unusually heavy rains occurring at harvest season. The expected record crop of 5,000 to 6,000 tons was reduced to less than 2,675 tons. With a relatively low carry-over, and imports lagging behind those of recent years, domestic supply for the 1939-40 season was 5,000 tons below the supply—30,643 tons—available during the 3 preceding years.

During the last 4 crop years an agreement between the Secretary of Agriculture and Coachella Valley Date Growers, Incorporated, has enabled growers to divert substandard dates from normal trade channels into byproduct uses. The 1939-40 diversion program provided for benefit payments of 3 cents a pound which were paid to growers on approximately 813 tons of low-grade dates.

Through improved marketing facilities and diversion programs, the industry has succeeded in increasing sales and prices received by growers. Farm prices in 1939 were \$126 per ton which is well above the average of \$103 per ton for the previous 5 years. Farm value of the 1939 crop will exceed that of any year of comparable harvested tonnage.

FIG SURPLUS DIVERTED

Commercial production of figs is largely confined to California and Texas. Total production of these two areas was approximately 88,240 fresh tons in 1939. This is equal to average production of the previous 5 years. While production in California has been increasing, production in Texas has decreased to slightly over 1 percent of the total. Approximately 89 percent of the crop is dried in California, a small percentage shipped fresh, and an equally small percentage, constituting practically the entire Texas crop and a part of California's, is canned.

As a means of aiding producers of dried figs in the 1936-37 season, an agreement was made between the Secretary of Agriculture and Pacific Dried Fruit Products Association by which substandard dried figs would be diverted from normal trade channels into new and by-product uses. This program under the agreement was renewed in subsequent years and was operative during the 1939-40 season. As in three preceding seasons, the 1939-40 program operated under a schedule of rates and grades by which the Secretary made benefit payments to growers according to different varieties and qualities of figs produced. A total of 3,059 tons of figs was diverted under the program at a total cost slightly over \$51,400.

Farm price of fresh and canned figs averaged \$50.40 per ton in 1939 which is somewhat below the average of \$57.80 for the previous 5 years.

Farm price of dried figs, constituting the major portion of the crop, averaged \$77.80 per ton in 1939 which is well above the average of \$62.50 per ton for the previous 5 years.

WALNUT MARKETING PROGRAMS

Since the depression the Pacific coast walnut industry has been faced with the problem of maintaining orderly marketing and preventing further declines in grower prices and incomes. The industry has been confronted with this problem in the face of supplies annually far in excess of those which domestic consumers would absorb at prices reasonable to growers. This problem continued in acute form in the 1939-40 season and was aggravated by the European war. Important foreign markets which were being developed as a means of reducing disparity between domestic walnut supply and demand were closed by the war and this increased marketing difficulties encountered during the past season.

Annual surplus tonnage of domestic walnuts is due to increasing supply in Pacific Coast States and the smaller and slowly increasing volume which can be marketed in the shell at prices remunerative to growers. Tremendous decline in walnut imports, which in very large measure alleviated impact of reduced consumer demand following 1930, no longer affords relief to domestic producers. Imports of walnuts in unshelled form have been negligible since 1933. The domestic unshelled walnut market, which is and always has been the intended destination of domestic walnut production, has failed to return to the predepression level of demand at a sufficiently rapid rate to offset the continuing upward trend in domestic production.

MARKETING-AGREEMENT ACTIVITIES

Beginning with the 1933-34 season, the task of adjusting domestic supplies to current domestic demand for unshelled walnuts was undertaken jointly by the industry and the Federal Government under a marketing-agreement program inaugurated in October 1933. This program, adjusted and amended from time to time to meet changing conditions, has operated in basically unchanged form in every succeeding season.

The walnut marketing agreement program provides for segregation of all surplus domestic tonnage. This surplus is used for developing the domestic market for shelled walnut "meats," and for encouraging exports of unshelled walnuts. Seriousness of the industry's marketing problem and of disparity between demand for and supply of unshelled walnuts is indicated by the fact that, during the past 7 years, over 30 percent of all walnuts of a quality suitable for sale in unshelled form produced on the Pacific Coast has been withdrawn as surplus from normal trade channels under the marketing-agreement program. Moreover, notwithstanding such a reduction in supply, prices to growers during the 7-year period were, on the average, about one-half of the returns received prior to the depression. However, under programs operated since 1933-34, heavy walnut supplies have been moved into trade channels within the marketing season, and large inventories remained in packers' hands in only 2 seasons, 1935-36 and 1938-39.

Returns received by producers for surplus tonnage diverted from the normal unshelled walnut market have averaged little above 50 percent of returns obtained from walnuts sold in unshelled form in the domestic market. In order to relieve the industry of part of the burden resulting from the disposal of surplus tonnage, benefit payments aggregating nearly \$6,250,000 have been paid to domestic walnut growers during the past 5 seasons through diversion and export programs which have supplemented the industry's marketing-agreement program.

WALNUT PRODUCTION HIGH

At the beginning of the 1939-40 season, domestic production of walnuts was estimated at 61,600 tons. This represented the largest crop on record. During the preceding 6 years, domestic production had averaged approximately 45,000 tons. In addition to the heavy 1939 crop, over 3,500 tons remained on hand from the preceding crop. Outbreak of the European war just prior to the 1939-40 marketing season sharply increased uncertainty of disposition of surplus tonnage in foreign markets. This uncertainty was significant in view of the fact that principal export markets which had been developed in preceding years were in European countries.

Damage to the crop at harvest time resulted in an estimated decrease in 1939-crop tonnage from 61,600 tons to 57,300 tons. Even with this curtailment, the new crop was 13 percent larger than that of the preceding year, and less than 3,000 tons below the record crop of 1937. In line with the reduction in crop, salable percentage under the marketing-agreement program, originally established by the Secretary of Agriculture at 60 percent, was increased to 65 percent. Salable tonnage so established involved disposition in the domestic market of over 32,600 tons of merchantable walnuts. Total disappearance of unshelled walnuts in the United States averaged only 28,200 tons during the preceding 5 years.

SURPLUS WALNUTS DIVERTED

Under the marketing agreement program in effect during the 1939-40 season, 310,762 100-pound bags of domestic walnuts were removed from normal trade channels for disposition in export or for shelling. Disposition of this surplus tonnage under supplementary export and diversion programs was to be completed at a cost of \$1,142,048. By reason of restrictions imposed on principal export markets, bulk of this surplus tonnage will be used in shelled form in the domestic market.

Average prices received by producers of walnuts in Pacific Coast States for their 1939 crop were relatively low, averaging around 8.6 cents per pound. This compares with approximately 10 cents per pound, the average for the previous 5 years. With the present high level of domestic production, there is little likelihood of appreciable improvement in returns to domestic walnut producers. In years of unusually heavy crops such as that of 1939, the industry's ability to maintain orderly marketing conditions and the recent level of prices to growers represents a definite achievement.

OTHER TREE NUTS

No Federal programs were in effect for other principal domestic tree-nut industries—almond, filberts, improved and seedling pecans—with exception of the program on unshelled pecans which was continued through 1939-40 from the preceding season.

The 1938-39 program for unshelled pecans provided for the exportation of a maximum of 2,500 tons. This program followed similar programs operated during the 1936-37 and 1937-38 seasons, but involved a larger tonnage. Difficulties encountered in exporting pecans under conditions prevailing during 1939 and absence of any practicable alternative outlets for pecans resulted in extension of this program into the 1939-40 season.

Heavier production in 1939 of pecans, both improved and seedling varieties and of almonds and filberts on the Pacific Coast, was satisfactorily disposed of through increased marketing efforts of the respective industries. This was a noteworthy achievement in view of the fact that combined production of these nuts was nearly 12,000 tons, or about 30 percent, above that of the preceding year.

HOPS AND OTHER CROPS

Basic problem in the hops industry of Pacific Coast States has been disposal of excess production which resulted from rapid expansion in acreage following repeal of prohibition. The hops industry particularly is susceptible to ill effects of overproduction. Except for utilization of very small quantities in manufacture of pharmaceuticals, hops are used only in brewing of beer and ale. They constitute, however, only a minor although necessary item in brewing, about two one-hundredths of a pound of hops being used in brewing a gallon of beer.

Amount of hops used by brewers in any year depends upon volume of beer brewed which in turn depends upon volume of beer consumed. Because of this, and because the brewing process proceeds according to long-established formulae of brewmasters, price at which growers sell their hops has little or no effect on the volume which they can sell. At very low prices some increase in hops sales may occur as a result of an increase in speculative activity or of an increase in brewers' inventories. Such increased movement fails to affect volume of current consumption, however, and results only in marketing difficulties for later crops. On the other hand, with relatively heavy investment involved in establishment of hopyards and of equipment necessary to preparation of hops for market, a reduction in acreage entails considerable financial sacrifice to growers.

Following overexpansion in the early thirties hops production on the Pacific coast averaged over 39,000,000 pounds annually. Annual consumption of domestic hops during this period averaged only 31,000,000 pounds. Natural process of contraction of acreage proved insufficient to correct this maladjustment.

HOPS MARKETING PROGRAMS

A Federal marketing agreement program was inaugurated in August 1938 as a means of bringing the current supply of domestic-grown hops into adjustment with requirements of United States

brewers and export trade. This program was preceded by one in the 1937-38 season for diverting a price-depressing surplus of 17,000,000 pounds of old hops which threatened demoralized marketing conditions during 1938-39.

The marketing agreement program for the 1938-39 season was implemented by further diversion of old hops and by a loan to hop growers designed to remove the remaining accumulation of old hops and to strengthen the growers' bargaining position in that season. These measures brought a substantial improvement in the supply situation and resulted in an average price to growers in 1938-39 of nearly 20 cents a pound as compared with an average of 16 cents a pound in 1937-38. Under conditions prevailing in 1938-39, domestic hops supplies proved to be in excess of requirements. Prices to growers were maintained, however, throughout the season by operation of the loan pool. Over 7,000,000 pounds of hops were placed in the pool under nonrecourse Commodity Credit Corporation loans to growers averaging 20.6 cents a pound.

The Federal marketing agreement program was continued in operation during the 1939-40 season in essentially the same form as in the preceding year. Under this program the volume of domestic hops required for domestic brewing and for export determines the volume of hops available for such markets. Loss arising from production of surplus tonnage is shared equitably by all growers by allocating salable tonnage, as established under the marketing agreement program, among growers on the basis of their current production.

At the beginning of the 1939-40 season the total volume of domestic hops salable during that season was established under the marketing-agreement program at 29,400,000 pounds. It was anticipated at that time that imports during the season would exceed United States exports by approximately 2,000,000 pounds. Primarily because of change in foreign conditions following outbreak of the European war, salable quantity for 1939-40 was increased to 31,400,000 pounds.

EFFECT OF EUROPEAN WAR

The United States had been on an import basis with regard to hops for 4 years prior to 1939-40. Principal hops-exporting countries of the world were Germany, Czechoslovakia, and Poland. Hops from the first two of these countries are renowned for their high quality. Outbreak of the European war seriously jeopardized these sources of supply and greatly stimulated demand for domestic hops. During the 1939-40 season imports of hops into the United States were reduced and exports of domestic hops increased. By the end of June 1940 the United States had returned to an export basis, with a net export balance for 1939-40 of over 1,400,000 pounds.

Prices for uncontracted hops rose precipitously to 40 cents a pound during the first 2 months of the 1939-40 season, declined thereafter to around 25 cents a pound, and rose again steadily toward the end of the season. In sharp contrast to the profitable 1939-40 season, prices to growers for uncontracted hops opened around 15 cents a pound in 1937-38 and declined throughout that season to a level of approximately 10 cents a pound during 1938-39. The first year under the

marketing-agreement program prices for uncontracted hops fluctuated closely around 20 cents a pound during the first part of the season and increased to 25 cents at its close.

Favorable outlook for the hops industry is clouded by uncertainties of the European war. Cessation of hostilities could presumably result in a movement of European hops similar to that before the war. To obviate disruption of the domestic industry, which such a change in market outlet would cause, domestic hops growers propose to continue the marketing-agreement program so that volume available for sale may be kept in adjustment to the needs of whatever situation may develop.

DRY EDIBLE BEANS

The United States dry edible bean supply for the crop marketing year beginning September 1, 1939, totaled 17,172,000 bags of 100 pounds each, or only 2 percent less than the record-large 1938-39 supply of 17,568,000 bags, but about 18 percent larger than the 5-year average of 14,647,000 bags.

The United States harvested an average annual crop of dry beans of 13,095,000 bags of 100 pounds each, composed of about 20 distinct commercial classes, from an average of 1,674,000 acres in some 16 States during the 5-year, 1933-37, period. Average annual total value of these beans to farmers was \$42,000,000. Six States, in approximate order of importance, Michigan, California, Idaho, New York, Colorado, and New Mexico, account for an average of more than 90 percent of United States dry edible bean production.

WAR STIMULATED MARKET

Almost simultaneously with the beginning of the 1939-40 season, war in Europe started. As with other agricultural commodities, dry-bean prices increased sharply during September 1939. These increases, however, were not long sustained, although subsequent prices for most domestic commercial classes of dry beans have averaged higher in the 1939-40 season than corresponding prices during the same months of the preceding season. The United States farm price for all dry beans averaged \$3.25 a 100-pound bag during the first 9 months, September-May, of the 1939-40 season, which compares with corresponding prices of \$2.57 and \$3.57, respectively, for the same 9 months of the 1938-39 and the 5 seasons, 1933-37.

Apparently bean growers and others, in recalling the high level of bean prices attained during the World War, expected some comparable prices to result from the new European war situation. Relatively large increase in export demand for dry beans combined with a relatively high level of domestic consumer demand for beans, however, did not suffice to forestall decline in prices from the relatively high September 1939 levels. Exports of United States dry beans totaled 638,500 bags during the 8 months, September-April, 1939-40, as against exports of about 149,000 bags during the corresponding 1938-39 period and an average of about 45,000 bags during the same months of the 5-year period, 1933-37.

SURPLUS REMOVAL ACTIVITIES

Although aid has been rendered to the dry edible-bean industry continuously since May 1939 by designation of dry edible beans on the surplus foods list of the Food Stamp Plan, requests for assistance in the form of direct purchases of dry beans, to be distributed to families on relief, and for marketing agreement programs were received. Purchases of dry edible beans for relief distribution were made during the 1939-40 season for the sixth consecutive year.

Slightly less than 300,000 bags of dry edible beans were bought during the 1940 fiscal year, principally in Michigan and California. This involved an expenditure of \$1,005,530, including commodity and transportation costs. In addition, nearly 79,500 bags of beans moved into consumption under the stamp plan with a blue-stamp expenditure of around \$540,000.

VEGETABLE-CROP PROGRAMS

Truck crops are produced in practically every agricultural region of the United States. Farming methods employed vary from intensive hand methods to extensive field operations which involve use of machinery. Methods of marketing truck crops also differ widely. In effect, the truck-crop industry comprises a collection of many distinct industries. Moreover, the economic condition of growers varies widely not only during a given season but from one season to the other.

Truck crops do have certain points in common. With only few exceptions, they are annuals, and acreage can be expanded or contracted very readily from one season to the next. They are perishable, presenting no carry-overs to any new season. During the past 20 or more years production has expanded steadily, and it is continuing to do so but at a decreasing rate.

In the late spring, summer, and fall months, market garden supplies of truck crops are available in areas close to the principal population and consumption centers lying in a belt from a line connecting Minneapolis, Minn., and St. Louis, Mo., east to the Atlantic coast. These supplies dominate the markets through October. By November commercial producing areas in more distant points begin to predominate and become more important through the winter and early spring, giving way again to nearby supplies in late spring. This cycle of production areas is accompanied by a price cycle, in which quantities of fresh vegetables are greatest in summer and least in winter, with prices highest in winter and lowest in summer.

CHANGES DURING SEASON

The 1939-40 season opened with the vegetable price and supply situation moderately favorable. During July 1939, of nine important truck crops, three were in better-than-usual position, three about normal, and three were experiencing trouble in marketing supplies at remunerative prices to growers. By August, under pressure of

heavy supplies, prices declined more than seasonally, with some crops, formerly in good position, having trouble. In September the situation returned to normal, and further improved during October and November. The situation in December was about as usual, and with light supplies good prices prevailed in January.

The winter in the South was the coldest since weather reports have been available. Many growers lost most of their crop, or were required to replant several times. As a result, supplies of vegetables were sharply curtailed by February and prices were unusually high. Many vegetable growers were in extreme distress, not because of surpluses, but because of little or no product to sell. This situation gradually improved throughout March, April, and May, until conditions were near normal in June, and by close of the 1940 fiscal year at the end of June, seasonal truck crops of nearly all kinds were plentiful. The surplus situation was no more severe than usual the first half of the fiscal year, and during the last half supplies were anywhere from scarce to normal so that as a whole the need for programs to care for surpluses of truck crops was less than for any recent year.

During the 1940 fiscal year, six marketing-agreement programs were in effect in the vegetable industry. These programs related to watermelons grown in Florida, Georgia, South Carolina, and North Carolina, tomatoes in Mississippi, onions in Utah and Colorado, peas and cauliflower in Colorado, and western Washington lettuce, peas, and cauliflower. Of these six programs in effect, four were operated.

SOUTHEASTERN WATERMELONS

For the fifth consecutive season a marketing-agreement program for watermelons in the southeastern States was continued in operation. This program under a marketing agreement and order provided for regulation of watermelon shipments by grades and sizes and by shipping holidays or prohibition of shipments. On May 8, 1939, a regulation was issued restricting shipments of melons to U. S. No. 2 grade or better. This was continued in effect throughout the season.

Production in 1939 was considerably below average, mostly due to low yields. For watermelons, as with most other truck crops, there is a close relationship between yields and quality, so that with the poor yields of 1939 the quality of the watermelon crop was below average. The regulation in effect throughout the season was effective in keeping poor quality and immature melons out of terminal markets. The 1939 farm price of watermelons was \$133 per carload, compared with \$90 in 1938, and an average of \$105 in the 5-year period, 1934-38.

During the course of the 1939 season there was considerable pressure from growers and shippers to lower grade standards for melons permitted to be shipped so as to include some of the poor melons which were prevented from being moved to market. Largely as a result of this, representatives of the industry recommended to the Secretary of Agriculture that regulations under the agreement and order be suspended during the 1940 shipping season. This request on the part of the industry was followed, thus giving growers and shippers an opportunity to appraise further the advantages and disadvantages of preventing off-grade and immature melons from being marketed before drawing final conclusions on the advisability of continuing the program in effect.

COLORADO PEAS AND CAULIFLOWER

The 1939 season also marked the fifth consecutive year of operations under a marketing-agreement program for Colorado peas and cauliflower. For the period August 6 to August 30, which represents the principal marketing period for Colorado peas, shipments were limited to peas that would grade U. S. No. 1. From August 31 to September 14, grade regulations were lowered to permit shipment of peas grading 80 percent U. S. No. 1.

For the period August 6 to October 14, or for the entire Colorado commercial cauliflower season, shipments of this commodity were restricted to U. S. Grade No. 1, and sizes which would pack 11 and 12 heads in a crate. In addition to aid in clearing up an extreme congestion of supplies in terminal markets a shipping holiday was declared for 2 days, September 15 and 16, when no movement of any kind was permitted.

Colorado peas are marketed for the most part in Eastern cities, and Colorado cauliflower is sent primarily to markets in the Midwest. In both cases considerable competition is met from crops grown nearby. Extra cost of transporting Colorado vegetables 1,000 to 1,500 miles emphasizes need of competing on a quality basis. Production of both cauliflower and peas was greater during the 1939 season than in the former season, and also greater than the average for the last 10 years, and prices were lower. Although the industry has not been able to avoid lower prices, it is of the opinion that the marketing-agreement program has achieved consistent and beneficial results by preventing shipment of low-grade products.

COLORADO AND UTAH ONIONS

A marketing agreement and order became effective for Colorado onions during 1938. This action was followed in 1939 by adoption of a similar program by producers in Utah. Both programs were operated during the 1940 fiscal year.

Shipments of Utah sweet Spanish-type onions were restricted from October 20, 1939, to March 9, 1940, to grade U. S. No. 1 and to sizes 2 inches in diameter or larger. Colorado sweet Spanish-type onions were similarly restricted during the period December 15, 1939, to March 26, 1940, except that sizes 1¾ inches and larger were permitted to be shipped.

VEGETABLE PURCHASES

Approximately \$1,000,000, exclusive of transportation and other costs, were spent by the Federal Government during the 1940 fiscal year for surpluses of truck crops. About \$700,000 of this amount went to growers in commercial producing areas, and the remainder for purchases made in market-garden areas.

Twelve different vegetables were purchased in commercial areas. Onions were by far the most important commodity taken. The onion crop was the largest on record, with most of the increased production in the late group of States. Onion prices were among the lowest ever experienced for this commodity during the fall and early winter. During this period marketing-agreement programs, purchase operations, and the Food Stamp Plan were used to assist producers in the removal of the heavy supplies.

PURCHASES IN FARMERS' MARKETS

Vegetables were purchased during the first 3 months of the 1940 fiscal year in various farmers' markets in urban areas throughout the Northeast and North Central States. Purchases, which were made in 29 farmers' markets located in Massachusetts, Connecticut, New York, New Jersey, Pennsylvania, Ohio, Michigan, and Minnesota, began in the Northeastern States in the middle of July 1939 and in the Midwestern States the middle of August. Most of the programs continued throughout the greater part of September and all were concluded by September 30. During the first month of operations purchases were much smaller than had been anticipated due to severe drought in these areas. Heavier purchases were made during the latter part of August and September following rains which broke the drought. Approximately 593,000 bushels of nine commodities were bought and distributed for relief use at a total cost of about \$310,000. Tomatoes, carrots, and sweet corn accounted for the larger part of the expenditure, although quantities of snap beans, lima beans, beets, cabbage, celery, and onions were purchased.

INDUSTRY COOPERATION

Most of the fresh produce bought in farmers' markets was distributed for relief use in the same city in which the markets were located. Growers and marketing officials, through their recommendations, assisted in operating the program in each market. Within the limitations imposed by distribution outlets, an attempt was made to absorb the quantity in excess of daily market requirements.

In carrying out this program, as in 1938, efforts were made to bring about permanent improvement in grading, packing, and packaging of locally grown produce. Additional costs of such grading and sorting are extremely small in comparison with the improved returns which may be received. Under the purchase program, vegetables bought had to meet certain grade standards, and free inspection on sales was supplied. As a result of this program, and efforts of co-operating agencies, considerable improvement in grading and in standardization of containers was reported on a number of farmers' markets.

VEGETABLES UNDER THE STAMP PLAN

During the 1940 fiscal year certain truck crops were made available from time to time under the stamp plan. Commodities listed under the program included onions, tomatoes, green peas, cabbage, and snap beans. The period of time for which they were included on the list of surplus commodities varied, but in general it extended from the middle of July to the end of September, with snap beans being confined to the list for the month of October.

In June 1940 a program was inaugurated to designate by regions seasonal surplus vegetables under the stamp plan. Through flexible operations, seasonal surplus problems concerning important vegetables may this be dealt with when and where they develop. This method of stamp-plan designations is designed primarily to take care of market-garden surpluses, and is coordinated with the program for making direct purchases in the farmers' markets.

GRAINS, COTTON, AND OTHER COMMODITIES

Various measures were employed during the 1940 fiscal year for dealing with marketing problems encountered by growers of widely produced commodities such as grains, cotton, peanuts, pork, and eggs. Surplus removal activities were designed to broaden market outlets for burdensome supplies which were depressing returns to producers.

For several of the leading agricultural products, war in Europe accentuated the surplus problem. In general, unsettled world conditions during the 1940 fiscal year required more extensive aid to farmers to enable them to cope more effectively with surpluses than otherwise would have been necessary. This help was extended through purchases for relief distribution, operation of the stamp plan, diversion to byproduct outlets and to encourage new uses, and through export programs to encourage foreign sales in competition with supplies from other countries.

WHEAT MARKETING PROGRAMS

At the beginning of the 1939-40 marketing year, world wheat supplies (excluding Russia) were probably somewhat smaller than the 5,199,000,000 bushels reported for 1938-39. Acreage in 23 countries which had produced 85 percent of the harvest in 1938 was estimated at 192,000,000 acres, compared with 206,000,000 acres planted to wheat in 1938-39.

Supplies for export were large in Canada, Australia, and Argentina. World wheat exports had been declining sharply from the 1928-29 peak of 913,000,000 bushels. This was largely a result of measures taken by importing countries to reduce use of foreign wheat. There appeared to be no disposition on the part of Canada and Argentina to adopt measures intended to control production, and each of these countries seemed determined to continue the policy of subsidizing exports in order to dispose of their large quantities of wheat produced in excess of their domestic requirements.

In the United States, the carry-in on July 1, 1939, was 253,820,000 bushels, which was about 65 percent greater than that on the same date of the previous marketing year, which added to production estimated at 754,971,000 bushels, resulted in a total supply of 1,008,791,000 bushels.

PROGRAMS SUPPORT PRICES

During the year 1938-39, wheat prices in the United States had been supported by programs of the Department of Agriculture, including the wheat loan program and the wheat and wheat flour export programs which enabled American exporters to compete in foreign markets. Prices at Liverpool, reflecting the world wheat market, had been under pressure of heavy offerings by various export countries all paying subsidies in one form or another.

With heavy supplies and other depressing influences acting on world and domestic wheat markets, it seemed that the United States must either continue the policy followed from 1938-39, or accept practical exclusion of its wheat products from world markets. In the latter event a sharp decline in prices for domestic wheat would have been almost certain to follow.

SURPLUS WHEAT MOVED

Wheat and wheat flour export programs operated during the 1940 fiscal year, resulted in sales contracts for export of slightly over 35,000,000 bushels, at a cost slightly over \$10,000,000 in payments to exporters. About 80 percent of this quantity was exported, leaving the remaining 20 percent for export during the 1941 fiscal year.

Purchase programs accounted for the equivalent of approximately 21,200,000 bushels purchased in the form of flour and other wheat products for relief distribution. This involved a total expenditure in excess of \$19,000,000.

Sale of approximately 1,625,000 bushels of wheat in the form of wheat flour and graham flour was encouraged and assisted by operation of the stamp plan. Low-income families taking part in the stamp plan spent over \$2,200,000 of their blue stamps for these wheat products.

Altogether, programs operated during the 1940 fiscal year to improve farm income from wheat marketing, accounted for nearly 59,000,000 bushels of wheat at a cost of \$32,179,539, all directed into otherwise unobtainable export markets or uses outside normal channels of trade.

CORN MARKETING ACTIVITIES

For the season 1939-40, production of corn in the United States was 2,619,137,000 bushels, which added to a carry-in of 572,882,000 bushels, gave a total supply for the season of 3,192,019,000 bushels. This was the largest supply since the season of 1932-33. Since smaller quantities of corn were needed in 1939-40 than in earlier years of large corn supply, surplus of corn above normal requirements was probably greater than in any previous year.

Livestock feeding on the farm is by far the most important use for corn in the United States and it is estimated that only 15 to 20 percent of the normal year's production enters the usual commercial channels of trade as corn. It was expected at the beginning of the 1939-40 crop year that only 370,000,000 to 490,000,000 bushels of corn would go into nonfeeding uses. Principal channels of commercial distribution are through wet-processing mills, distilleries, breweries, and food-products industries, whose requirements are fairly constant and were estimated for 1939-40 at 175,000,000 to 200,000,000 bushels. Net exports in the period October 1938 to September 1939 were only 33,927,000 bushels, and it was expected that in the marketing year 1939-40, corn exports would be very small.

SURPLUS CORN MOVED

During the 1939-40 marketing year, programs of the Department of Agriculture, including the corn-loan program, maintained prices above the level at which corn could be exported in competition with supplies from other producing countries. An export program was therefore approved in May 1940, under which 25,282,000 bushels were sold to foreign buyers. Only a small percentage of these purchases, however, was exported before June 30, 1940. Domestic market distribution of corn was increased by purchases of over 405,000,000 pounds of corn meal and grits for distribution through relief

channels, with an expenditure in excess of \$6,572,524. In addition, approximately 315,000 bushels of corn moved into consumption in the form of corn meal and grits under the stamp plan with an expenditure of \$368,000 in blue stamps.

SURPLUS OATS BOUGHT

At the beginning of the 1939-40 crop year, production of oats in the United States was estimated at 929,968,000 bushels. Carry-over as of July 1 had been estimated at 190,572,000 bushels, making a total supply of 1,120,540,000 bushels. This compared with the average supply of 1,104,172,000 bushels for the 5-year period, 1934-38, inclusive. Carry-over on July 1, 1939, exceeded average carry-over for the 10-year period, 1929 to 1938, by 2,600,000 bushels, and total supply for the marketing year beginning July 1, was estimated to be over 30,000,000 bushels greater than the average supply in the same 10-year period.

Exports of United States oats have averaged for a good many years since the World War only a fraction of 1 percent of a year's production. It was estimated that out of the 1939-40 crop approximately 90 percent would be required to feed farm animals and used for seed and that only 3 to 5 percent would go into manufacturing foodstuffs.

Although percentage of the crop used in the manufacture of oatmeal and other food is relatively small, the quantity is still substantial and demand for this purpose calls for good quality oats at higher prices. Since it was believed that an increase in use of oats in manufacture of oat cereals would contribute materially to an improvement in returns to producers, the equivalent of nearly 2,500,000 bushels of oats was purchased in the form of oat cereals, most of which was donated for use in the school lunch program. This involved a total expenditure slightly over \$1,300,000.

RICE MARKETING ASSISTANCE

The extremely large carry-over of rice from the 1938-39 crop year, combined with the new 1939-40 production, indicated a total supply in terms of rough rice of 60,648,073 bushels, equivalent to 16,846,687 pockets (100 pounds) of cleaned rice. It was estimated that if domestic disappearance, exports, and shipments in 1939-40 should equal those of the preceding year, there would be a carry-over at the end of the 1939-40 marketing year of approximately 11,400,682 bushels, or more than twice the average carry-over of 4,972,248 bushels in the 5 marketing years, 1934-38, inclusive.

Cuba, most important foreign market for United States rice since the reciprocal trade agreement became effective on September 3, 1934, took an average of 350,500 pockets (100 pounds) in the 3 marketing years, 1934-36, inclusive, as compared with 46,650 pockets in the 5 preceding years. Special additional concessions permitted increases in 1937 to 2,032,610 pockets and in 1938 to 2,394,490 pockets.

WAR AFFECTS EXPORTS

Exports of rice to Europe dropped from 1,526,720 pockets in 1931-32 to 205,170 pockets in 1936-37, and amounted to 594,920

pockets in 1938-39. This trade was curtailed early in the 1939-40 marketing year by outbreak of war in Europe.

Actual exports to Cuba in the first 10 months of the 1939-40 marketing year, August to May, inclusive, have amounted to 1,906,900 pockets as compared with 2,000,160 pockets during the same months of the preceding marketing year. Exports to European countries were about 407,670 pockets during the period August 1939 to May 1940.

Slightly over 940,000 pockets of surplus milled rice were purchased during the 1939-40 marketing year for relief distribution to families in lower income groups with an expenditure of \$2,786,210, including commodity and transportation costs. These purchases were made after the planting for the 1940 crop period and improved considerably the statistical position of rice for the beginning of the 1940-41 crop year. In addition, nearly 50,000 pockets of rice moved into consumption under the Stamp Plan through an expenditure of \$260,000 in blue stamps.

PROGRAMS FOR COTTON

At the beginning of the cotton marketing year on August 1, 1939, world carry-over of American cotton amounted to 14,030,000 bales as compared with an average carry-over for 10 years, 1927-36, of 8,454,000 bales. Even this average carry-over was considered excessive, as in past years from 4,500,000 to 5,000,000 bales were considered normal and adequate reserves to be carried over from year to year. The surplus situation was aggravated by the fact that annual production of cotton outside the United States has increased approximately 6,000,000 bales since 1932.

The 1939 cotton crop in the United States amounted to 11,481,300 which added to the carry-over made a total supply for the year of more than 25,500,000 bales, or more than twice the combined average domestic consumption and exports for the 5-year period, 1933-37.

FOREIGN SALES DECLINING

Exports of cotton from the United States had declined rapidly from an average of 7,724,000 bales in the 5-year period 1928-33 to about 3,350,000 bales in the year beginning August 1, 1939.

Exports also had declined rapidly in comparison with exports from other cotton-producing countries. For the 5-year period 1928-32 cotton exports from the United States averaged approximately 65 percent of total exports from the four most important exporting countries, the United States, British India, Egypt, and Brazil. In the cotton year 1938-39, United States exports were only 38 percent of total exports from these four countries.

Exports of cotton products had shown a similar decline. United States markets for exports of cotton products have been mainly in the Western Hemisphere and the Philippine Islands, but even these markets were menaced by increasing German and Japanese competition.

While much of this decline in exports of cotton and cotton products was due to larger cotton production and greater cotton-mill activity in competing countries, the United States was at a decided disadvantage with other countries in price, because of programs designed to maintain prices which kept the domestic price above world levels.

Exports.—In order to make it possible for the United States to hold a fair share of the foreign market for cotton and cotton products, an export program was made effective on July 27, 1939. Under this program as originally announced, payments were authorized amounting to 1.50 cents per pound on raw cotton, and the approximate equivalent of this amount on a weight basis on exports of cotton products. Payments were not to be made in connection with any article containing less than 50 percent by weight of cotton fiber.

In order to avoid possible reimportations of articles on which payments had been made, these payments at first were not authorized on exports to Canada, Mexico, Central America, Colombia, Venezuela, or the West Indies. At the same time proceedings were instituted under section 22 of the Agricultural Adjustment Act of 1933 as amended, requesting imposition of quotas on imports of cotton and cotton waste. Following a proclamation by the President that such quotas would be imposed on September 20, 1939, export payments were extended to the countries named, effective September 11, 1939.

CHANGES IN RATES

Since sales during the first 4 months of the program were larger than had been anticipated, a new schedule of rates was made effective December 6, 1939, reducing the payment on raw cotton to 0.75 cent per pound and reducing the rates on cotton products to approximately 50 percent of the original rates.

On December 7, 1940, rates of payments were again reduced effective December 8. The new rate on raw cotton was 0.40 cent per pound. This rate applied also to card strips, comber waste, and unbatted cotton as one class of cotton products (class A), but rates on other cotton products remained as they were established on December 6.

On December 11 the rate on raw cotton and class A products was cut to 0.20 cent per pound, rates on other cotton products still remaining unchanged. Finally, on January 30, 1940, rates on Class A products were reduced to zero, while rates on cotton products other than Class A were retained.

Offices for administration of the export program were opened at New York, Savannah, New Orleans, Houston, and Los Angeles. Exporters were invited to make application for payments at these offices by filing proof of exportation or reports of sales for exports. Reports of sales entitled the exporter to a definite commitment under the program at the rate then in force, but no payments were made until after the cotton or cotton products were actually exported. Cotton products and in some cases raw cotton were inspected in order to insure compliance with provisions of the program. In the case of cotton products, inspectors were in many cases sent to mills to inspect goods before they were packed or baled for shipment.

MORE COTTON EXPORTED

At the opening of the 1939-40 cotton year, conditions appeared to be favorable for somewhat larger exports than in the preceding year. Stocks of American cotton in European mills were low, and price differentials favored American cotton as against other growths, particularly Indian. Later in the year, however, because of the European war and shipping and trade restrictions, conditions were excep-

tionally unfavorable to exports. Actual exports were about 6,100,000 bales as compared with 3,351,000 bales in the year ended July 31, 1939, and 5,672,000 bales in the cotton year 1937-38 which followed production of the record crop of 1937.

Exports of American cotton to the United Kingdom were greater in the 1939-40 season than since that of 1928-29. To the continent of Europe, exports were greater than in 1938-39, but less than in 1937-38. To the Orient, exports in 1939-40 were the largest since the season 1936-37. With wars both in Europe and in the Orient, exportation of 6,000,000 bales of American cotton is a distinct achievement, and a part of the increase over the small exports of 1938-39 was undoubtedly due to export payments.

At the end of the 1940 fiscal year about 335,000 bales of cotton sold under the program remained unshipped in American ports and warehouses. Most of this cotton would have been shipped if cargo space had been available or if war conditions had not prevented delivery.

Final date of shipment under the program has been extended until October 31, 1940, in order to give further opportunity for shippers to complete these transactions and so be able to collect payments to which they will be entitled as soon as the cotton is actually exported. Total expenditures under the cotton-export program are expected to exceed \$40,000,000 in connection with the movement of over 6,000,000 bales of cotton.

One-variety cotton exports.—Under another program payments were made in connection with certain qualities of cotton produced in approved one-variety areas, handled under specified methods and conditions, and exported in lots composed solely of cotton produced in such areas.

The program was designed to encourage production of those particular kinds of cotton most desired by foreign spinners and to promote most improved methods of handling, marketing, and delivering this cotton. The program also attempted to deal with competition which American cotton had to meet because of improvements in foreign production and handling. In the United States seed stocks and facilities for handling cotton are highly developed but are used only to a limited extent, but in many foreign cotton-producing countries they are very generally used. This enables more desirable foreign-grown cottons to compete successfully with American-grown cotton in world markets.

There is reason to believe that some foreign spinners now using other growths of cotton are doing so because they are not familiar with the better quality of cotton being produced in one-variety areas in this country. Obvious remedy for this situation is to increase production of more desirable cotton for spinning, to insure its proper ginning and handling, have it assembled into even-running lots of the same grade and staple length from the same one-variety areas, and keep these lots intact as they pass through the channels of trade until they eventually reach foreign spinners.

DETAILS OF PROGRAM

Under the one-variety cotton export program, cotton of acceptable qualities was purchased from producers daily by participating ex-

porters at prescribed prices. Purchases were made on the basis of net weight of bales and sales were made to foreign spinners on the same basis. Qualities suitable for the program were required to be ginned at an approved gin, sampled at the gin by an approved sampler, officially classified, completely covered with approved bagging, permanently identified, undamaged by the compress and exported in even-running lots from the same area. Full information as to variety and source of the cotton was made available to foreign purchasers.

To insure availability of a supply of selected cotton necessary to carry out the program the exporters were required to pay producers a premium of 10 points per pound over the prescribed spot market price. They were also required to pay ginners 50 cents per bale for proper ginning, 10 cents per bale for sampling in accordance with official instructions, and 10 cents per bale for permanent identification. In order to compensate exporters for higher prices they were required to pay and for additional expense involved in the necessary special handling, the program provided for payments to exporters of \$3.70 per bale for cotton exported. Payments totaling \$54,455 were made during the 1940 fiscal year on 12,592 bales. The number of bales received at each gin point totaled 571 at Jackson County, Okla.; 4,891 at Newton, Miss.; 848 for South Arkansas; 1,046 for Southeast Missouri; and 5,236 at Victoria, Tex.

Purchases.—Two cotton-purchase programs were operated during the 1940 fiscal year. These programs were designed to remove a part of the burdensome surplus of cotton by increasing domestic consumption of cotton products.

The first of these programs involved the purchase of raw cotton, mattress ticking, and fabric suitable for comforter covering. These materials were distributed on application to local agencies, and manufactured into mattresses and comforters by persons who were certified as eligible to receive the completed mattress or comforter. The second purchase program involved direct purchase of cotton sheeting and blankets for distribution to eligible families by relief agencies. Families eligible to receive these products were those on relief or, in the case of mattresses and comforters, with gross family incomes not exceeding \$400 per annum for farm families, or \$500 per annum for nonfarm families. Such families were considered not to be in a position to buy commercially manufactured mattresses, comforters, blankets, and sheets in appreciable quantities.

SURPLUS COTTON USED

Cotton and fabric acquired for distribution under provisions of the cotton mattress program totaled 163,951 bales of raw cotton. Included in this total were 146,743 bales of lint cotton. The equivalent of 14,195 bales and 3,013 bales of cotton, respectively, are estimated to have been required in the manufacture of 16,080,000 yards of mattress ticking and 6,000,000 yards of comforter covering purchased. Expenditure involved in this program totaled \$9,769,930. This includes \$7,616,576 for lint cotton, \$1,629,411 for mattress ticking, and \$523,943 for comforter covering.

Under the second cotton-purchase program, 2,196,000 cotton blankets and 10,049,770 yards of sheeting, equivalent to approximately 15,978 bales and 14,214 bales of cotton, respectively, were purchased.

Of the blankets bought, 300,000 were baby size and 1,896,000 were regular size. Expenditures for the blankets totaled \$1,916,418. Purchases of sheeting included both bleached and unbleached fabric, with expenditures of \$1,790,057.

Diversion and new uses.—Four cotton diversion programs operated during the 1940 fiscal year. Two of these programs involved making of payments to encourage manufacture and use of cotton bagging for covering cotton bales. A third was designed to encourage use of lint cotton, card strips, comber waste, and cotton linters in manufacture of high-grade writing paper, while the fourth provided for payments to manufacturers in connection with manufacture of cotton insulation for use in buildings.

These programs were designed not only to remove a part of the burdensome surplus of raw cotton, but at the same time to demonstrate the value of cotton for these uses and to develop a consumer preference for the manufactured products.

Cotton bagging for bales.—The first of the cotton bagging programs was, in effect, a continuation of one which operated in the 1939 fiscal year. Payments of 28 cents each were authorized on not to exceed 1,000,000 patterns for covering cotton bales. Award for the manufacturing of these patterns was made on a competitive basis to one manufacturer. At first, sale of these patterns was restricted to gins and producers in one-variety communities. Later, sales were permitted to any gin, cotton producer, or cottonseed oil mill. Because of early restrictions on sales and other unforeseen factors, sales of bagging under the 1939 program could not be completed before June 30, 1939. For completion of that program, after the close of the 1939 fiscal year, payments were made on a total of 222,360 cotton patterns in the 1940 fiscal year. About 2,400 bales of cotton were utilized in manufacture of these patterns at a total cost of about \$52,000.

A second cotton-bagging program went into effect in May 1940. This program differed from that of a year earlier in that a fixed payment of 25 cents per pattern was authorized, and the offer at this rate was opened to all manufacturers. Application for participation by 6 cotton mills was approved and the 1,000,000 patterns authorized under the program were allocated to these mills by agreement. One of these mills, due to pressure of other orders, later relinquished its quota which was reallocated to the other 5 mills. By the end of the 1940 fiscal year one of these mills had oversold its allotment, three had sold or manufactured their entire allotment, and one had sold or manufactured 16,600 patterns of a 75,000-pattern quota. The entire program has resulted in utilization of about 10,800 bales of lint cotton at a cost of \$250,000.

If cotton-bale coverings were used for the entire cotton crop, between 100,000 and 150,000 bales would be required. Established use of cotton-bale covering would provide a dependable market for a cotton-mill product which could be manufactured by many mills in slack seasons, during depressions, and in other periods of low prices.

Current practice of gross weight trading retards use of cotton for bale covering, despite its advantages over jute. Under present conditions many cotton mills are making allowance for lighter tare of cotton-wrapped bales.

Cotton in paper.—Cotton rags have long been standard material for the manufacture of fine paper. It has been increasingly difficult,

however, to obtain suitable rags in sufficient quantity for growing needs of the paper industry. At the same time technical progress has developed wood pulp of a high alpha cellulose content which to a large extent has been substituted for cotton rags.

At the same time studies in the Department of Agriculture have shown that certain grades of cotton and cotton products, such as spinnable waste, could be used to advantage for making the better grades of paper without increasing cost of the finished product. There are even possibilities for reductions in the present cost of paper manufacture through direct use of cotton.

PROGRAM IN EFFECT

In order to demonstrate this point, and to utilize a part of the cotton surplus, a program was developed in cooperation with the Writing Paper Manufacturers Association under which the association buys lint cotton, card strips, comber waste, and cotton linters for use in manufacturing paper. The program provided for payments to the association in the amount by which cost of materials delivered to approved users exceeded 3 cents per pound gross weight, but not in excess of 10 cents per pound.

Applications were approved for the purchase of a maximum of 546,700 pounds of cotton, including card strips, comber waste, and linters, at a maximum expenditure of \$33,505. This was equivalent to approximately 1,100 bales of cotton.

Diversion of this cotton had not been completed by all of the participating mills by the end of the 1940 fiscal year. Preliminary reports, however, indicate satisfaction with the material. This program offers large possibilities for cotton, and if its utilization is fully developed in fine paper manufacture, about 240,000 bales would be required annually.

Cotton insulation.—Demand for greater protection against heat loss in winter and heat gain in summer has led in recent years to a rapid development of house insulation. Many materials are used for this purpose, but tests have demonstrated that cotton is one of the most effective of all insulation materials. Cotton is easily treated to make it flame resistant and it is highly resistant to vermin and mildew.

A program to encourage use of cotton for insulating purposes became effective in May 1940. It provided for allotments authorizing manufacture and sale of cotton insulation to cooperating sellers upon submission of applications and standard agreements. Participants receive payments for cotton insulation manufactured and sold in accordance with provisions of the program, at the rate of 6 cents per pound of insulation.

Limited operating period provided by the program made it difficult to organize sales agencies and to initiate large-scale production. Consequently, allotments were made to only two companies and one of these, because of pressure of unexpected commercial contracts, failed to manufacture any insulation. The other company, however, sold its entire allotment of 500,000 pounds. Amount of cotton utilized was approximately 1,045 bales.

The program has created interest in the trade, and there is every indication that the program was satisfactory to the cooperating com-

pany and to purchasers of the insulation. Potential market for cotton insulation is very large. If this market for cotton gains consumer acceptance, as much as 750,000 bales annually could be used.

MARKETING PEANUTS AIDED

Production of peanuts affords a substantial cash income to about 134,000 farm families in the United States. Peanuts are grown in the same areas which produce cotton. In recent years both acreage and yield have increased and production has been greatly in excess of trade requirements in every year since 1934.

Peanut production in 1939 approximated 589,700 tons. Of this quantity about 480,000 pounds were available for commercial uses. From 390,000 to 445,000 tons of peanuts have been required for use in confectionery, peanut butter, and for consumption as nuts.

DIVERSION TO BYPRODUCTS

In recent years the surplus situation for peanuts has been handled entirely by programs for diversion of peanuts into oil and by-products. The program for the 1940 fiscal year was similar to those which operated during the three preceding fiscal years. Under this program payments were made to producers' cooperatives in the Virginia, southeastern, and southwestern peanut-producing areas on the diversion of farmers' stock peanuts. Payments were equal to amounts by which prices paid growers as determined by the Secretary, plus handling charges, exceed prices at which peanuts were sold for manufacture into oil. Funds for purchase of peanuts for diversion by the cooperatives were borrowed from the Commodity Credit Corporation, or from commercial banks. In some instances, because of increased demand, peanuts purchased for diversion by cooperatives were resold to the edible trade and no diversion payments were made on them.

Under the program cooperatives bought only 42,314 tons, of which 34,671 tons were diverted. It is estimated that as a result of the program farm price of peanuts was raised from \$15 to \$20 a ton above what it otherwise would have been, and total return to farmers was increased from \$7,000,000 to \$9,000,000 at a cost of about one-tenth of that amount.

PORK PRODUCTS

The 1939-40 season was marked by the largest hog slaughter since the 1934 drought period. Estimates indicate the slaughter of 48,000,000 head under Federal inspection for 1939-40, as compared with an average of approximately 35,000,000 for the period 1933-34 to 1937-38. Before 1934, when annual hog slaughter was of comparable magnitude, the United States enjoyed a very large export trade in lard and other pork products. Since then, exports have been severely restricted, first by the 1934 drought which caused short supplies in this country, then by closing of British and, more particularly, of the German market through import quotas, foreign-exchange restrictions, and other limitations on international trade. In 1939 the European war and blockade completely cut off outlets in central Europe. The United Kingdom was left as the only important

European customer, and even this country's imports of lard were lower in 1939-40 than in the previous year.

A further adverse factor was the very large supply of edible vegetable oils available in 1939-40. Vegetable oils are used for shortening and thus compete directly with lard.

With export markets cut off, and large supplies of competing products available, lard and other pork products piled up in storage and prices were depressed.

PROGRAM DEALS WITH SURPLUS

In order to relieve pressure of surpluses of hog products on prices to producers, large quantities of lard, and smoked and salted pork products were bought by the Federal Government for relief distribution and for use in the school-lunch program. Lard and certain pork products were also included on the list of surplus commodities available to those participating in the stamp plan. Altogether, nearly 275,000,000 pounds of surplus lard and pork were taken off markets through direct purchases and operation of the stamp plan. This involved an expenditure of over \$25,600,000, including commodity and other costs.

Slightly over 241,400,000 pounds of lard and pork were acquired through direct purchases for relief and school-lunch uses. These purchases included 30,872,000 pounds of fatbacks, 13,713,000 pounds of salt bellies, 6,584,000 pounds of smoked picnics, 25,278,500 pounds of smoked hams, 34,251,000 pounds of smoked bacon, and 130,740,036 pounds of lard.

Over 10,000,000 pounds of lard moved into consumption through the stamp plan with an expenditure of \$855,000 in blue stamps. In addition, 22,984,000 pounds of pork were moved under the stamp plan through an expenditure of \$3,839,000 in blue stamps. Persons taking part in the stamp plan during the 1940 fiscal year spent for pork and lard nearly 29 percent of the added purchasing power given them in the form of blue stamps.

Following usual practice, direct purchases of surplus lard and pork products were made on the basis of invitations to bid or open offers and acceptances, and were restricted to the continental United States.

Price of hogs is dependent upon four principal factors, size of the slaughter, purchasing power in the United States, supply of competing products such as beef or vegetable oil, and export demand. Direct purchases, together with movement of pork and lard under the stamp plan, replaced in part the greatly reduced export demand and undoubtedly maintained producer prices at a higher level than they would have been otherwise. In addition, large supplies of hog products were made available for relief distribution and for use in the school-lunch program.

IRISH POTATOES

Production of all Irish potatoes in 1939 totaled 364,016,000 bushels, which was 2,933,000 bushels, or about 1 percent, below the average of 366,949,000 bushels for the 10-year period 1929-38. The 1939 potato crop was the smallest since 1936. Production in the early commercial States and in the Western surplus late States was above average. Production in the Eastern States was below average as a result of a

severe drought which caused low yields in several of the Atlantic Coast States.

The 1940 early commercial crop in the Gulf Coast States was retarded by severe cold weather which delayed harvesting and reduced yields in South Florida and Alabama. Lateness of the early crop extended by about 1 month the marketing season for old potatoes produced in 1939.

The 1939-40 season price for potatoes averaged 68.9 cents per bushel. This compares with 54.8 cents per bushel in the 1938-39 season and an average of 65.2 cents per bushel for the 5-year period 1934-38. The price during April, May, and June of 1940 averaged 84.3 cents per bushel.

Because of unfavorable growing conditions in the early producing area, it was apparent that the 1940 harvesting period would overlap with that of the intermediate area. This problem was further complicated by prospect of high yields in later potato growing sections.

WORK ON MARKETING PLANS

Potato prices in concentrated commercial areas began to decline sharply by mid-June. Heavy supplies available indicated that potato prices would continue low for the remainder of the early crop and for the larger intermediate crop. Usually low prices at that time of the year retard movement of intermediate potatoes and low prices continue well into the marketing season for late potatoes.

In anticipation of the problem with which growers in all areas were expected to be confronted in marketing their 1940 crop, plans were being developed toward the end of the 1940 fiscal year for removing surplus potatoes from normal trade channels to other outlets. In previous years of heavy production, Government programs designed to improve potato-marketing conditions included purchase of surplus potatoes for relief distribution, diversion of surplus potatoes to starch and livestock feed, and use of marketing-agreement programs to regulate shipments.

Marketing-agreement programs were in effect in 1937 and 1938 for potatoes grown in 8 late States, and in 1938 for potatoes produced in 4 early commercial States. These marketing programs, in effect through Federal orders, prevented shipment of culls in interstate commerce. In addition, interstate shipments of other small sizes and low grades could be restricted, depending upon local conditions and demand for potatoes produced in a particular area.

SWEETPOTATO GROWERS ASSISTED

While total production of sweetpotatoes in the entire United States was only 1,989,000 bushels, or about 3 percent above the average of the 10 years 1928-37, production in Atlantic Coast States was 10 percent above the average of the years 1928-37. Sweetpotatoes, particularly some of the varieties produced in Virginia, Maryland, and eastern North Carolina, do not keep well in storage and so must be sold shortly after harvest. A local surplus situation, therefore, developed in this area at the time of harvest in 1939.

Purchases of surplus sweetpotatoes were made only in Maryland, Virginia, and North Carolina, beginning in September 1939 and ending early in November. All purchases were made directly from

growers and sweetpotatoes bought were distributed through relief agencies.

PURCHASES AND DIVERSION

Total purchases amounted to 397,246 bushels at a cost of \$241,730. Since total production in Atlantic Coast States was approximately 34,000,000 bushels, even a slight price advance as a result of these purchases returned to growers far more than cost of the program.

For several years prior to 1934, Department of Agriculture chemists and engineers had been developing a process for recovering starch from sweetpotatoes. In 1934 the Federal Emergency Relief Administration furnished funds for purchase and equipment of a starch plant at Laurel, Mississippi, as a means of aiding in rehabilitation of farmers living on cut-over land. The plant has been operated with continued support of Government agencies in order to determine whether the process has commercial possibilities. If it has, the new industry will furnish an outlet for sweetpotatoes raised specifically for starch on land formerly devoted to cotton, and thus improve agricultural income.

In order to encourage diversion of sweetpotatoes to this starch plant, a program has been in operation under which payments have been made on sweetpotatoes used for this purpose. Under the program in effect during the 1940 fiscal year, rate of payment was 20 cents per bushel, and 272,881 bushels were diverted at a cost of \$54,577.

Sweetpotato starch has proven to be very valuable in the textile industry for sizing both yarn and finished cloth. Sweetpotato starch has properties similar to those of imported root starches of which this country normally imports about 360,000,000 pounds annually.

CONNECTICUT SHADE TOBACCO

Between 10,000 and 11,000 acres of cigar-wrapper tobacco are grown annually in the United States. Roughly, two-thirds of this acreage is Connecticut Valley Shade-Grown tobacco (U. S. Type 61) produced in Connecticut and Massachusetts by approximately 50 growers, some of whom are also packers and handlers. The remaining acreage of shade tobacco is grown in a small area of Georgia and Florida.

A program under a marketing agreement and license for Connecticut Valley Shade-Grown tobacco has been in effect since December 9, 1933. Under terms of this program, the Secretary of Agriculture announces each year advisable acreage to be grown which will tend to maintain a balance between supply and consumption. Each producer is allotted his equitable share of total advisable acreage by an acreage committee provided by the program. Only that tobacco grown within the advisable acreage may be handled by handlers.

A control committee is charged with responsibility of supervising performance of the marketing-agreement program, to act as an intermediary between the Secretary and the handlers, and to hear and dispose of questions and complaints. Other provisions of the program require grading of all tobacco; compliance with certain conditions with respect to packing and marketing tobacco; and compliance with fair-trade practices controlling sale of all tobacco by

handlers and brokers. The program also provides for a meeting on or about December 1, of each year, of handlers and processors with the Secretary or his representative for the purpose of discussing conditions with reference to production and marketing of this kind of tobacco in the following year.

OPERATIONS UNDER PROGRAM

Following the meeting in December 1938 for discussing conditions with respect to production and marketing of the 1939 crop, recommended acreage was set at 7,300 acres or the same as for 1938. Although supply was low following the 1938 crop which was severely damaged and reduced by the New England hurricane, it was thought that this acreage would produce a quantity of tobacco slightly in excess of consumption and go toward building up supplies to the desired level. With the very high yield in 1939, more than 8,000,000 pounds were produced. Season average price amounted to 80 cents per pound, and returned growers nearly \$7,000,000 which was the largest income since 1923.

Consumption during the 1938-39 season fell considerably below the estimate made at the time the 1939 advisable acreage was determined. This decrease combined with the high 1939 yield increased 1939 supplies 3,000,000 pounds above the 1938 level.

At the meeting in December 1939, for discussing conditions affecting the 1940 crop, 6,500 acres, or a reduction of approximately 800 acres below that grown in 1939, was recommended as advisable acreage for 1940. The bumper crop of 1939 had more than replenished the supply which had been reduced by loss in the 1938 hurricane and flood. Acreage recommended for 1940 was expected to produce a quantity of tobacco about equal to the level of consumption.

During existence of the marketing-agreement program, season average prices have ranged from 80 to 98 cents per pound, except in 1938 when the crop was severely damaged and partly destroyed. Prices in 1932 and 1933, before the program, averaged about 60 cents per pound.

PROGRAMS FOR EGG PRODUCERS

Principal problems confronting the poultry industry, especially during the 1940 fiscal year, have been higher feed prices, low egg prices, and increased production of eggs. The factor of increased production was influenced considerably by favorable weather conditions especially during late fall of 1939. This together with increased rate of production per farm flock and increased average size of farm flocks resulted in accumulation of supplies of eggs in excess of normal and a corresponding tendency to depress prices.

As a means of preventing unduly low returns to egg producers and also to assist in stabilizing prices, especially during the peak production period, the Federal Government purchased eggs for relief distribution and for use in the school-lunch program. In addition, eggs were included on the list of surplus commodities available to persons taking part in the stamp plan in exchange for blue stamps at local retail stores.

EGG SURPLUS ABSORBED

Nearly 2,619,000 cases of surplus eggs were absorbed through the direct purchase and stamp-plan programs during the 1940 fiscal year at a total cost slightly in excess of \$15,440,000. Direct purchases accounted for 2,245,952 cases with an expenditure of \$12,834,520, including commodity and transportation costs. The stamp plan moved into consumption 372,800 cases of eggs with an expenditure of \$2,606,000. Approximately 16 percent of the extra buying power in the form of blue stamps given to participants in the stamp plan was used in exchange for eggs at local retail stores.

Production of eggs during the 1940 fiscal year exceeded that of the previous year by approximately 1,950,000 cases. Through direct purchases and operation of the stamp plan, volume of eggs absorbed exceeded by approximately 649,000 cases the surplus of eggs produced over the 1939 year.

During the months from March through June 1940, which represent the principal period for moving eggs into storage, production of eggs was approximately 1,328,000 cases more than for the same months of 1939. During these four months in 1940, over 2,000,000 cases were absorbed by egg-buying and stamp-plan activities. Again the surplus removed was in excess of the apparent surplus production for the same four months in 1939.

BENEFITS FROM PROGRAMS

Representatives of egg-marketing and producer groups have estimated that volume of surplus eggs absorbed through direct purchase and stamp-plan operations maintained farm-egg prices during the spring of 1940 at least 3 cents per dozen above what prices would have been had there been no program in effect. Prices would have declined approximately to the low point experienced during depression years. In addition, it is believed that the egg-surplus-removal program was instrumental in preventing too sharp a decline in 1940 hatchings. This will result in a larger supply of eggs next winter and spring at reasonable prices to consumers than there would have been if no program had been in effect. Supplies of eggs next spring would have been reduced to such an extent that there would have been a definite shortage of eggs not only for home consumption but for freezing, storing, and drying. Thus the program contributed toward maintaining greater stability in the industry.

The purchase program demonstrated to the egg industry the value and usefulness of Federal grades. One of the serious drawbacks in the domestic egg industry is the fact that probably no two cities of any major size use the same egg-grading system. Leaders in the poultry industry have recognized this situation for some time, and it is one which must be solved before the industry can overcome many of its problems. Federal grades have been accepted by the trade in this buying program and, generally speaking, the grades have been accepted with favor. It is believed that this is an important fundamental effect of the program which should in time be more beneficial to producers.

DEALING WITH AGRICULTURAL TRANSPORTATION PROBLEMS

Transportation is one of the most important elements of the distribution problem involved in marketing of farm products. Congress has recognized this. In fact, it has gone deeper and has taken into account realities of the situation, namely, that few growers or growers' organizations have time and opportunity to acquaint themselves with all of the technicalities of transportation or are financially able to retain permanently the services of transportation specialists. This has been done through enactment of Section 201 of the Agricultural Adjustment Act of 1938.

By provisions of this new legislation, Congress (1) authorized the Secretary of Agriculture to file complaints with the Interstate Commerce Commission involving questions of rates, charges, tariffs, and practices relating to transportation of farm products; (2) authorized the Secretary to intervene formally in cases before the Interstate Commerce Commission filed by other parties and involving farm products; and (3) authorized the Secretary to cooperate with and assist farm organizations in making complaint to that Commission with respect to rates, charges, tariffs, and practices concerned in transportation of farm products.

PROCEDURE FOLLOWED

To a substantial degree, the Department of Agriculture has been able to deal with these transportation questions without recourse to the Interstate Commerce Commission in formal proceedings. This is in keeping with desires of the Interstate Commerce Commission that formal complaint cases be not presented to the Commission until and unless all reasonable efforts to obtain voluntary cooperation of railroads have failed. This course has been pursued inasmuch as it has sound grounds for support.

First, as has been stated by the Commission in various cases, carriers may voluntarily do many things which the Commission may not lawfully compel them to do. Secondly, in the hearing of formal complaint cases, the Commission labors under the necessity of giving all parties an opportunity to be heard, and this oftentimes involves lengthy hearings, taking of considerable testimony, presentation of numerous exhibits and briefs, and holding of oral arguments. Thirdly, the Commission must study and analyze all testimony, exhibits, and contentions before a conclusion is reached and an order or orders issued. All of this necessarily results in lapse of a considerable amount of time between filing of formal complaint and establishment of rates in response.

RESULTS THROUGH NEGOTIATIONS

Therefore, where practicable, the Department has extended its assistance to negotiations in which railroads and producers have participated. Instances of this character follow:

Cotton.—For some time, producers in the Southwest have felt that they had been laboring under the disadvantages of an unnecessarily high level of freight rates on cotton. To correct this rate situation, negotiations were carried on with the railroads. Result was that in tariffs filed in May 1940 and bearing an effective date of June

20, 1940, a complete revision in rates on cotton from the Southwest to Gulf ports, to the Southeast and to the Carolinas was published. Reductions ranged in amounts from 9 cents to 15 cents per 100 pounds. It has been roughly estimated that this will represent a saving of approximately \$1,000,000 annually on shipments of a normal season.

Potatoes.—Growers of potatoes in some areas find it difficult to distribute their product to towns of small or moderate size. This is because the railroads' carload minimum weights, upon which low carload rates are predicated, are in excess of the amount of potatoes which may readily be distributed in such towns. A situation of this nature confronted growers of potatoes in North Carolina, and a 20-percent reduction in carload minimum weight was obtained.

Car rentals.—In addition to line-haul freight charges covering shipments of potatoes from Southern States, railroad tariffs have contained separate and distinct charges, published as car-rental charges, which have been assessed when special railroad cars have been furnished. Cooperation has been obtained whereby these rental charges have been canceled.

Poultry.—Shipments of live poultry require special cars, and in order to guarantee arrival of birds at market in good condition, caretakers must accompany shipments in order to feed and water the birds en route. One of the expenses incident to marketing of live poultry, therefore, has been payment of passenger fares by caretakers homeward bound. Negotiations with railroads resulted in publication of tariff provisions whereby free homeward return of caretakers has been authorized.

Pineapples.—Growers of pineapples in Florida have been handicapped in their distribution by competition with imported fruit. To encourage an increased domestic production, negotiations have been successfully concluded whereby railroads are cooperating in publication of reduced rates on shipments of domestic pineapples in Florida.

FORMAL ACTIONS

As may be readily understood, not all matters pertaining to rates, rules, and regulations covering transportation of farm products are susceptible of handling through negotiations. The Interstate Commerce Act provides for recourse to the Commission in instances of this nature, and section 201 of the Agricultural Adjustment Act of 1938 contemplates that the Department be permitted to participate in such proceedings.

The following are illustrations of proceedings of this character in which the Department has taken part:

Citrus fruit.—While freight rates on citrus fruits are made contingent upon specified carload minimum weights, it is not practicable to weigh all shipments since, with rare exceptions, the cars are loaded at shipping points and at sidings where there are no railroad scales. Further, nature of the commodity does not generally permit stopping shipments en route for purposes of track-weighing of the cars. Accordingly, freight charges are predicated upon published tariff estimated weights per package. Due to improved packing and to changes in predominant sizes of fruit in some shipping areas, conditions in late years have so altered that published tariff estimated weights do not now reflect actual average weight per package.

Railroads filed tariffs in which it was proposed to make some increases in these published estimated weights to more nearly reflect actual averages. However, no corresponding changes in rates themselves were proposed and tariffs were suspended by the Commission inasmuch as this method of publishing would have resulted in increasing total per car charges on citrus fruit shipments. Extensive hearings have been held and the subject is still pending.

Vegetables and deciduous fruits.—Railroad tariffs containing rates on vegetables and deciduous fruits, in carloads, likewise are predicated upon published estimated per package weights. Railroads, as was done with respect to citrus fruit tariffs, undertook to publish increases in some of these estimated per package weights without making any corresponding reductions in rates. The Commission likewise suspended these tariffs. Extensive hearings have taken place and the matter is still pending.

Livestock.—There are no through rates on livestock from the South to the East. Southern producers have been dissatisfied with this lack of rates and of resulting inability of Southern producers to obtain ready markets for their stock in the populous eastern section of the country. With the cooperation of their State agencies and the Department, these producers filed with the Interstate Commerce Commission a formal complaint which seeks establishment of joint, through, one-factor rates upon a reasonable basis. Hearings have been held and proceedings are still pending.

Grain.—Large numbers of producers in those parts of Nebraska and Colorado whose nearest primary market is Omaha expressed dissatisfaction with their freight rates to this market. Rates are of particular concern to them since their grain generally is sold on basis of the Omaha market less the freight rate from the shipping point. The Department participated in the complaint case filed with the Interstate Commerce Commission and nominal reductions were obtained from a few stations. Relief thus granted, however, was not deemed adequate and a new complaint has been filed and is now pending.

Cotton transit.—Privilege of stopping cotton shipments in transit is an essential requirement in successful marketing of the crop. Transit tariffs of the Southwest railroads, however, did not generally permit substitution of truck cotton for rail cotton at many of the transit points.

Due to lack of these privileges, buyers interested in purchase of cotton covered by in-bound paid rail freight bills frequently deducted from their price an amount equal to the maximum loss which they thought they might sustain if they accepted freight bills at their full face value. This developed a two-price system which was contrary to the best interest of Southwestern growers in that some cotton would bring one price, due to the fact that it had usable out-bound privileges via the railroads, whereas other cotton, just as good or better as to grade and staple, would not bring as good price due to its not having benefits of transit billing.

To correct this situation, Southwestern railroads filed tariffs with the Commission proposing to authorize substitution of truck cotton for rail cotton at transit points. Certain interests protested these tariffs and the Commission suspended the proposed rules. Formal

hearings were held in which the Department participated. The Commission, in due course, rendered a decision favorable to growers and the arrangements have become effective.

Water transportation.—While section 201 of the Agricultural Adjustment Act of 1938 does not specifically cover matters before the United States Maritime Commission, the Department has taken the position that Congress could not have intended to place responsibility upon the Department for handling rail transportation matters for the benefit of producers without, as a collateral proposition, placing similar responsibility with respect to water transportation. The Department, therefore, has been active in its cooperation with producers' organizations in extending advice and assistance in matters involving domestic and foreign water-borne commerce. Activities of this nature included participation in the proceedings before the Maritime Commission involving increased rates proposed by inter-coastal steamship lines for application from the West Coast to the North Atlantic seaboard via the Panama Canal.

